On the shoulders *of* giants

The NEXT generation

Bow Valley Energy Ltd.

2002 ANNUAL REPORT

Corporate Profile

Bow Valley Energy Ltd. is an international oil and natural gas company. Its common shares trade on the Toronto Stock Exchange under the symbol BVX. Bow Valley operates in two main areas, the U.K. North Sea and western Canada. Bow Valley is engaged in a full-cycle exploration and production program that entails land purchase, seismic acquisition and interpretation, drilling, facilities and pipeline construction, and the production of oil and natural gas. Bow Valley's business plan includes a balanced approach of higher-risk exploration, lower-risk development and the acquisition of producing properties.

Mission Statement

The corporate mission of Bow Valley Energy Ltd. is to create and continually increase value for its shareholders by profitably growing reserves and production of oil and natural gas. The Company strives to create a sustainable and profitable company while conducting its operations with integrity and respect for its employees and stakeholders, and extracts value from its assets in the most socially acceptable, environmentally responsible and regulation-compliant manner.

Annual General Meeting

Bow Valley Energy Ltd. is pleased to invite its shareholders and other interested parties to attend the Annual General Meeting, to be held at The Metropolitan Centre, Lecture Theatre, 333 – 4th Avenue S.W., Calgary, Alberta, Canada on Wednesday, May 21, 2003, commencing at 11:00 a.m. For those shareholders unable to attend the meeting, please complete and return your Form of Proxy.

Contents

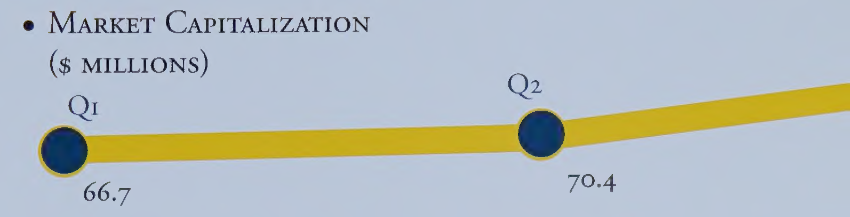
On the shoulders of giants

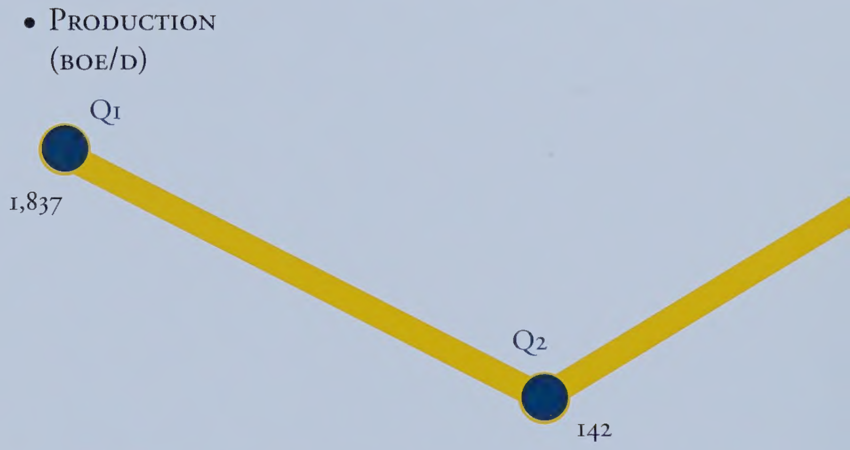
The Next Generation

Thirty years ago, the drilling rig Statflo discovered the giant Brent oil field in the North Sea. Although Brent was predicted to stop producing in 2001, the field and dozens like it continue to produce oil and natural gas. Similarly, in the mature Western Canada Sedimentary Basin, where many giant fields were found 30-50 years ago, the energy sector continues to find high impact discoveries capable of sustaining growth for years to come. The discoveries of a half-century in Canada and internationally have created a legacy of facilities, infrastructure, seismic data and experienced personnel. Combined with today's technologies, we believe that there are great opportunities for next-generation companies like Bow Valley to capitalize on the remaining assets left behind by the majors.

Bow Valley Energy Ltd.

Year in Review





Q1 2002

Production of 1,837 boe/d was from a single producing field, Kyle, in the U.K. North Sea. The Company initiated a strategic repositioning to diversify production through expansion into western Canada.

Q2 2002

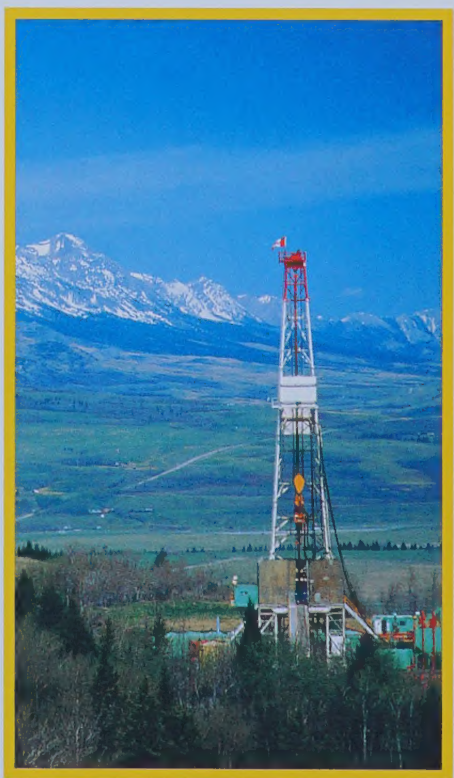
The Kyle Field was shut in due to a blockage in the natural gas sales pipeline, reducing net production to 142 boe/d in Q2. Fixed costs to maintain the FPSO on location and costs to repair the pipeline continued to accrue. Bow Valley purchased an additional 1.79 percent interest in the Kyle Field and participated in drilling a fourth development well.

Q3 2002

Production at Kyle resumed in early July. Bow Valley drilled an exploration well at West Compton, onshore U.K., which was dry. The Company acquired Boundary Creek Resources Ltd. for approximately $27 million to establish a presence in western Canada. Bow Valley was awarded a 25 percent interest in an exploration licence covering three adjoining blocks in the well-known Ettrick/Buzzard area.

Q4 2002

Production from the Kyle Field, the recent Boundary Creek acquisition and a successful exploration program in western Canada contributed to a record quarter with an average production rate of 4,495 boe/d. Bow Valley relinquished two exploration concessions onshore France and continued to focus its operations on oil in the offshore U.K. and natural gas in western Canada.

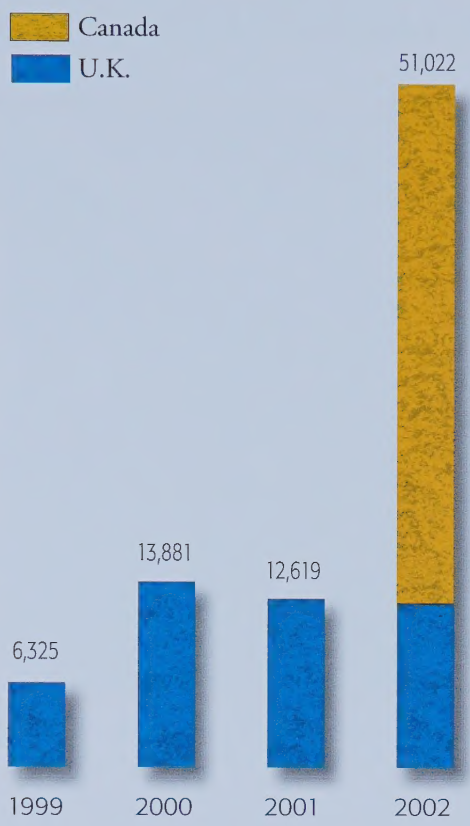


Highlights

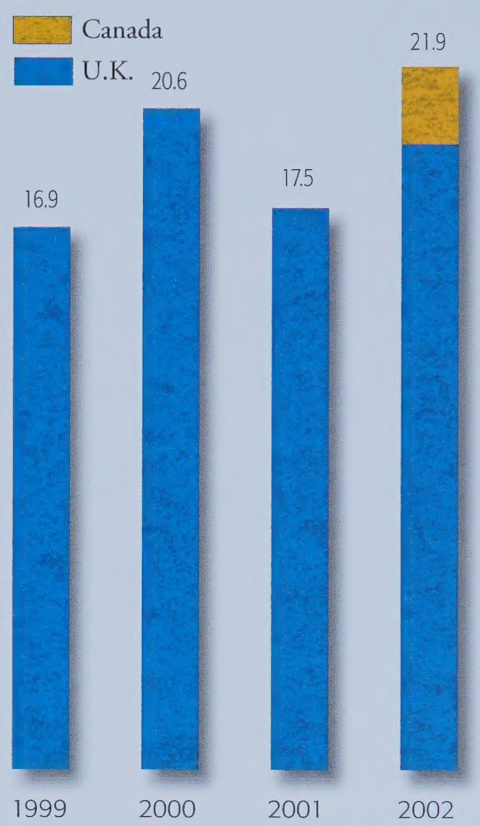
	2002	2001	% Change
Financial			
($000s, except as indicated)			
Operating revenue	**31,605**	24,365	30
Cash flow	**13,613**	16,645	(18)
Basic per share ($)	**0.27**	0.42	(36)
Diluted per share ($)	**0.27**	0.40	(33)
Earnings (loss)	**4,444**	(15,933)	N/A
Basic per share ($)	**0.09**	(0.40)	N/A
Diluted per share ($)	**0.09**	(0.40)	N/A
Working capital (deficit)	**(4,850)**	9,651	(150)
Long-term debt	**–**	(500)	(100)
Total net working capital (deficit)	**(4,850)**	9,151	(153)
Shares outstanding (000s)			
Basic	**61,844**	45,450	36
Options and warrants	**3,479**	4,904	(29)
Weighted average			
Basic	**51,040**	39,787	28
Diluted	**51,317**	41,124	25

	2002	2001	% Change
Operating			
Production			
Crude oil and ngls (bbls/d)	**1,459**	1,472	(1)
Natural gas (mmcf/d)	**5.7**	2.7	111
Oil equivalent (boe/d)	**2,409**	1,927	25
Prices			
Crude oil and ngls ($/bbl)	**38.81**	40.16	(3)
Natural gas ($/mcf)	**5.26**	2.80	88
Oil equivalent ($/boe)	**35.94**	34.64	4
Reserves			
Proved			
Crude oil and ngls (mstb)	**2,230**	2,180	2
Natural gas (bcf)	**19.0**	9.9	92
Oil equivalent (mboe)	**5,397**	3,827	41
Proved and probable			
Crude oil and ngls (mstb)	**14,910**	13,173	13
Natural gas (bcf)	**41.8**	26.0	61
Oil equivalent (mboe)	**21,868**	17,501	25
Undeveloped land (net acres)			
United Kingdom	**104,454**	75,265	39
France	**282,500**	486,077	(42)
Western Canada	**38,338**	9,600	299
Total	**425,292**	570,942	(26)

Capital Expenditures
($000s)

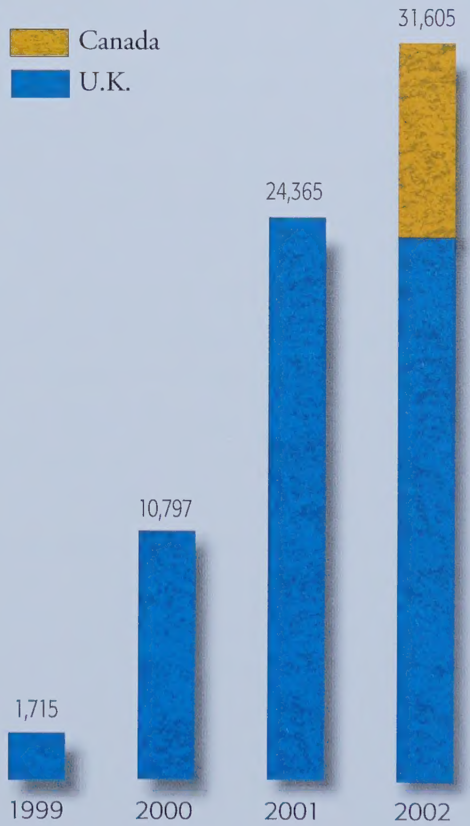


Proved + Probable Reserves
(mmboe)



Production
(boe/d)

Operating Revenue
($000s)



Letter to Shareholders

Robert G. Moffat, President and C.E.O.

It is a great pleasure to report on the financial and operational results of Bow Valley Energy Ltd. for the year ended December 31, 2002 and to discuss the Company's plans for 2003.

During 2002, Bow Valley made significant progress toward building a more diversified production base. The fourth-quarter production rate was 4,495 barrels of oil equivalent per day (boe/d), an increase of 133 percent from the previous year's average of 1,927 boe/d. This gain came mostly from Bow Valley's initiative to build a production base in western Canada.

Bow Valley remains committed to building shareholder value through successful exploration. The Company's exploration strategy is based on the understanding that a high well count is required to achieve the statistical average of success needed to overcome the risk inherent to exploration. Bow Valley is planning to drill 15-20 exploration prospects in western Canada and three exploration prospects in the U.K. sector of the North Sea during 2003. Bow Valley is working to establish a self-sustaining, repeatable exploration model that is self-financed by internally-derived cash flows.

Bow Valley's key personnel have a strong technical skill set and track record of building shareholder value through exploration. The Company's geographic focus is a natural gas agenda in western Canada and an oil agenda in the U.K. sector of the North Sea. To mitigate risk, Bow Valley has also established a portfolio of low-risk development opportunities in the North Sea and is continuing to look for attractive acquisition opportunities.

2002 Exit

Production

+133%

What we did.

During 2002, Bow Valley achieved an exit production rate of 4,495 boe/d, which included 2,040 boe/d from the U.K. and 2,455 boe/d from western Canada.

How we did it.

1. Bow Valley participated in drilling a fourth production well at Kyle in the U.K. and increased its interest in the Kyle Field.
2. In western Canada, the Company acquired Boundary Creek Resources Ltd., including 25 producing wells and several undrilled locations.

Bow Valley is a new-generation exploration company. It is operating in two mature exploration basins where it is seeking to capitalize on the extensive knowledge base of each basin. An exploration and development program focused in areas close to existing infrastructure should reduce the capital costs and lead time required to develop discoveries. Current offshore technology facilitates the economic development of smaller fields left undeveloped by larger companies now departing the North Sea. The Company is in a position to react quickly to the changing trends within each basin.

2002 Highlights

One year ago, the Company began a strategic transformation to diversify its production base beyond a single producing asset in the U.K. North Sea. Bow Valley had several accomplishments during the past year. Important highlights include:

- More than doubled the Company's production to 4,495 boe/d during the fourth quarter;
- Drilled a fourth development well in the Kyle Field;
- Purchased an additional 1.79 percent interest in the Kyle Field;
- Acquired a 25 percent interest in a new U.K. offshore exploration licence covering one full and two partial blocks – 115,600 gross acres;
- Drilled an exploration well at West Compton, onshore U.K.;
- Completed seismic interpretation of Bow Valley's onshore France concessions;
- Completed the construction and installation of the Balal offshore oil platform;
- Purchased Boundary Creek Resources Ltd. for approximately $27.1 million;
- Completed an $8.8 million financing to partially fund the Boundary Creek acquisition;
- Completed a $5.0 million flow-through share financing for Canadian exploration;
- Added production of approximately 1,200 boe/d through exploration in Canada; and
- Established a reserve base in western Canada totalling 2.4 million boe at year-end.

2002 Operating Revenue

+30%

What we did.

Bow Valley increased 2002 revenues to $31.6 million, generating cash flow of $13.6 million and earnings of $4.4 million.

How we did it.

1. Higher crude oil and natural gas prices for U.K. production and the addition of production from western Canada contributed to the increase.
2. Revenues were higher despite production being curtailed from the Kyle Field during the second quarter.

2002 Operational Issues

The strong progress made in 2002 was partially obscured by two adverse events. During the second quarter, production from the Kyle Field, which then represented 100 percent of the Company's production, was curtailed due to a blockage in a natural gas sales pipeline. During three months of limited production and revenue, the Company continued to incur fixed operating charges plus extraordinary costs to repair the pipeline. These costs have been expensed in 2002 and, as a result, skew certain financial performance indicators, particularly operating costs, beyond a fair representation of operating costs on an uninterrupted basis.

This issue underscored the risk of relying on a single producing field and had a negative effect on the Company's overall results for the year. Despite this setback, Bow Valley still achieved year-over-year production growth thanks to a remarkable improvement in the second half. During the shut-in period, Bow Valley participated in drilling a fourth production well at Kyle and increased its interest in the Kyle Field from 12.5 percent to 14.29 percent on very attractive economic terms. The pipeline blockage was removed by early July and gross production from the field, including the fourth well, averaged 11,500 bbls/d of oil and 29 mmcf/d of natural gas for the second half of the year.

The second issue is that the Company's strong growth in production volume coincided with a high finding and development (F&D) cost of new reserve additions. This was largely due to the start-up costs incurred in establishing a presence in a new country. Bow Valley had no operational presence in Canada before 2002 but now holds more than 38,000 net undeveloped acres of exploration land and more than 17,000 km of seismic data. An inventory of exploration prospects is emerging from this database and, therefore, it is reasonable to assume that a longer timeframe is required to measure the Company's real F&D performance. I have confidence that this figure will improve as subsequent drilling evaluates the initial work done in 2002.

New North Sea Exploration Agenda

During 2002, the Company was more proactive in adding exploration to its U.K. North Sea agenda. In early July, Bow Valley, along with two co-venturers, was awarded an exploration licence in the U.K. 20th Offshore Licencing Round. This licence offsets the Ettrick Field, in which Bow Valley has an 11.75 percent interest, and adjoins the Buzzard discovery made by industry competitors in 2001. Buzzard is thought to be the largest discovery in the North Sea in the past 25 years and it highlights the region's continuing exploration potential.

2002 Year-end

Reserves

+25%

What we did.

Total proved and unrisked probable reserves increased to 21.9 million boe in 2002 and were valued at $106 million (before tax and based on 12 percent discount).

How we did it.

1. Reserves increased as a result of acquisitions and drilling in the U.K. and western Canada.
2. Bow Valley added oil reserves from a fourth well at Kyle in the U.K. and natural gas reserves from properties acquired and drilled in western Canada.

The award of this new exploration licence positions Bow Valley in one of the hottest exploration areas in the North Sea. The Company has extensive seismic data in the area and two exploration prospects have been mapped. Exploration wells, in which Bow Valley has a 12.4 percent and 25 percent working interest respectively, are scheduled for the first-half of 2003.

In addition to the exploration activity in the Ettrick area, Bow Valley owns a 6 percent interest in a natural gas prospect in the South Basin, with drilling tentatively scheduled for the fourth quarter of 2003. Bow Valley has mapped additional prospects elsewhere in the North Sea and is pursuing more lands in new areas. The Company's goal is to establish an exploration program that will include one to three new exploration wells each year in the North Sea.

Western Canada

Effective August 29, 2002, Bow Valley purchased Boundary Creek Resources Ltd., a producing company in western Canada. The acquisition provided a diversified production base and operatorship of approximately 180 bbls/d of oil and 5.5 mmcf/d of natural gas (1,100 boe/d combined). More importantly, it provided a footprint in western Canada from which Bow Valley can formulate an exploration program.

Bow Valley's strategy in western Canada is to concentrate almost exclusively on natural gas. The Canadian properties and future exploration activity are in west central Alberta and northeastern British Columbia. Among the most important of the acquired Boundary Creek assets is its 17,000 km of seismic data. Bow Valley is actively evaluating this seismic data, which forms a key building block of the Company's exploration program.

In addition to the Boundary Creek acquisition, Bow Valley added approximately 7.2 mmcf/d (1,200 boe/d) of production through its exploration program in the Peace River Arch area of northern Alberta. This area is known for its potential to yield discoveries with high deliverability and large reserves. Bow Valley's first discovery (62.5 percent working interest) was at Balsam, Alberta, with an initial production rate in excess of 10 mmcf/d. Unfortunately, the Balsam discovery was subsequently offset by a second well owned by a competitor. Competitive drainage is forcing Bow Valley to produce its well aggressively, resulting in a steep production decline. One of the challenges in 2003 will be to replace this production decline. Fortunately, new discoveries during the first quarter of 2003 at Earring and Mirage in the Peace River Arch are replacing part of this decline.

Outlook

Bow Valley significantly increased its production base during 2002. More importantly, the Company has created a more diversified portfolio of assets that brings more stability to the Company's production base. At the same time, the Company has tightened its focus to concentrate on oil exploration in the U.K. North Sea and natural gas exploration in western Canada. Bow Valley has positioned itself to participate in some of the most exciting exploration plays in each area. The Company will remain committed to building shareholder value through exploration success.

Exploration is the Company's chosen method to achieve growth. During 2003, Bow Valley plans to participate in 15-20 exploration wells in western Canada focused on finding large natural gas reserves in the Peace River Arch area. In the U.K. North Sea, Bow Valley will continue with its agenda to develop five offshore discoveries. In addition, Bow Valley will participate in drilling three exploration wells, two in the Ettrick/Buzzard area and one in the South Basin. The Company will continue to evaluate new exploration and production acquisition opportunities.

The North Sea in particular is undergoing a transformation as the large established companies are selling assets to concentrate on new frontier areas. This has created an excellent opportunity to buy producing assets, develop or exploit existing discoveries and explore for new reserves in an area containing extensive infrastructure. By exploiting the foundation laid by others, management believes it can build a large, self-sustaining, international exploration company.

Bow Valley has a proposed capital budget of $23 million in 2003. With minor net debt, the Company is in a good financial position. The production base and resultant cash flow is sufficient to finance the Company's planned exploration activities. Commodity prices are robust and management believes that natural gas prices in North America will continue to provide strong price upside. Although oil prices are being influenced by current tensions in the Middle East, the price outlook for oil is positive.

Acknowledgements

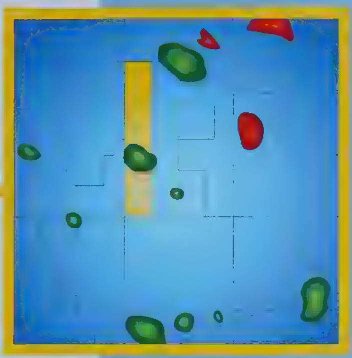
Bow Valley's many accomplishments during the past year would not have been possible without the dedication and hard work of our staff. The progress made to date is the beginning of greater things to come. I can make this bold statement because I believe that Bow Valley has an exceptional team. I thank the Board of Directors for their support, faith and guidance. And I thank the shareholders for their continued financial support. Together we can accomplish much more.

Robert G. Moffat
President and Chief Executive Officer
February 13, 2003


North Sea
Norway
Stavanger
St. Fergus
Aberdeen
U.K.
Amid the Giants
Gas Fields
Oil Fields
BVX Interest Area
Gas Pipeline
Oil Pipeline
National Sectoral Boundary

Ettrick

Bow Valley has an 11.75 percent interest in 37,500 net acres in the Ettrick area, immediately adjacent to the Buzzard Field discovered in 2001. The Ettrick Field, which has been evaluated to hold 25-50 million barrels of recoverable oil, will likely be a satellite development connected through a subsea pipeline to Buzzard. The field will likely be developed and commence production in a 2007-2009 timeframe. Bow Valley will participate in two exploration wells and a large 3-D seismic survey in 2003.



Kyle

The Kyle Field, in which Bow Valley holds a 14.29 percent working interest, has been producing since April 2001 from two formations, a Cretaceous Chalk formation and a Paleocene Sand formation flanking a huge salt diapir. A fourth development well was drilled and placed on production in 2002. Production is gathered and moved by subsea pipeline to a Floating Production, Storage and Offloading (FPSO) vessel. Gas is pipelined to the U.K. mainland; oil is stored and lifted by tanker for sale.

Chestnut

An extended test of an appraisal/development well drilled in 2001 produced approximately 1 million barrels of oil at an average rate of more than 13,000 bbls/d before the well was temporarily suspended. A new operator which acquired a majority interest in the field in early 2003 is expected to propose one or two additional wells and a subsea pipeline connection to existing facilities at a nearby producing field. The field is expected to be developed and placed on production by late 2004.

Blane

An appraisal well of the Blane Field was originally planned for 2003. The operator of the field, Enterprise Oil, was subsequently bought by Shell Oil and the development plans are currently postponed while Shell evaluates its priorities. The most likely development scenario is a subsea pipeline to a producing facility in the area. The reservoir, which holds 20-40 million barrels of recoverable oil, underlies the trans-median boundary between the U.K. and Norway and will require unitization of the interests in the two blocks and a treaty between the two countries. Development will likely be delayed until 2006.

Enoch/J1

The Enoch oil discovery in the relatively shallow Eocene Seles Sand and the J1 gas discovery in the deeper Hugin Sands of the Middle Jurassic formations are close to existing facilities and infrastructure at the Miller and Brae oil fields. Enoch, which has about 12 million barrels of recoverable oil, could be developed relatively quickly with one to two wells and a subsea pipeline to the Miller facilities. Further technical evaluation will determine if the J1 structure, containing approximately 75 bcf of natural gas, can be commercially developed. Technical studies and evaluation have been temporarily deferred due to a change of operatorship. Bow Valley is hopeful that a development of Enoch could be accomplished by 2006.

Our Asset Base...
a Balanced Portfolio

Western Canada

	Land* (net acres)	Production year-end 2002	Working interest (%)	Operator	2002 Activity	2003 Plans
Balsam	3,083	[illegible]	50 - 100	[illegible]	Exploration discovery drilled/on-stream Acquired adjacent land/wells	Install compression Shallow zone workover/ recompletion potential
Earring	2,045	[illegible]	32.5 - 85	[illegible]	Acquired and optimized shallow gas zone Explored with proprietary seismic	[illegible]
Gilby	3,760	[illegible]	9 - 100	[illegible]	Tied-in two new Glauc producers Obtained down-spacing approval	[illegible]
Highvale	5,947	[illegible]	25 - 85	[illegible]	Workover and compression added on key well Drilled unsuccessful Ellerslie test	[illegible]

* Land includes developed and undeveloped acreage.

	Land (net acres)	Production year-end 2002	Working interest (%)	Operator	Reserves proved & probable (mmboe)	Projected on-stream date
Kyle	1,988	[illegible] Oil 1,579 bbls/d	14.29	[illegible] Resources	5.86	[illegible]
Ettrick	3,342	-	11.75	[illegible]	3.85	[illegible]
Blane	1,732	[illegible]	15.25	[illegible]	4.49	[illegible]
Chestnut	1,303	-	8.87	[illegible]	1.97	[illegible]
Enoch/J1	2,417	-	15.00	[illegible]	3.33	[illegible]
Offshore Exploration	31,711	[illegible]	4 - 25	[illegible] EnCana, RWE Dea		

North Sea

Responding to Key Questions

Q. *How can Bow Valley compete against the large, established international oil companies in the North Sea?*

A. These companies are in fact leaving the North Sea. They have outgrown what they see as the remaining opportunities because this maturing basin no longer appears to provide opportunities of economic scale to the very large and higher-cost producers. Bow Valley is an example of a new breed of independent operator that can capture material growth in a mature basin thanks to its relative size, agility and low-cost structure. Bow Valley has a strong working knowledge of the basin and a good network of industry contacts.

Q. *What's left to be discovered?*

A. There's still potential to discover significant reserves in these maturing basins. The operator of the recent Buzzard oil discovery in the North Sea has announced that the new pool contains greater than 400 million barrels of recoverable oil, representing one of the largest North Sea finds in 25 years. In western Canada, the recent Ladyfern discovery is yielding 600 billion cubic feet of recoverable natural gas reserves and has made the Slave Point reef play one of the more active exploration plays in the Western Canada Sedimentary Basin. Bow Valley is active in both the Buzzard area in the North Sea and the Slave Point reef play in western Canada. There are still significant reserves to be found in these basins.

Q. *How can Bow Valley finance a significant find in Canada or the North Sea?*

A. Bow Valley's production base and existing credit facilities are capable of internally financing the Company's current exploration program. Capital required to develop a large discovery can be met with conventional bank debt or with new equity. There is a growing recognition in the equity markets of the North Sea opportunity and new capital is available for well-founded projects.

Q. *What is the abandonment liability in the North Sea fields?*

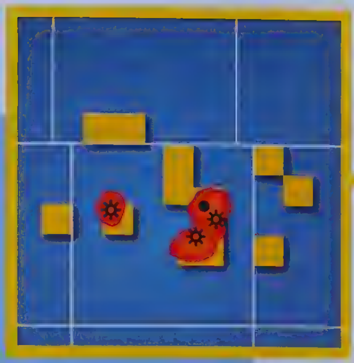
A. The development of giant discoveries in the North Sea over the past 30 years has left a legacy of infrastructure and facilities. New subsea completion technology enables a contractor to complete offshore wells on the sea floor and tie-back to an existing production platform. Bow Valley does not own an interest in existing platform facilities and therefore the abandonment and environmental liability to Bow Valley is kept to a minimum.

Q. *What are the opportunities to buy producing assets in the U.K. or western Canada?*

A. Fantastic! Both the U.K. and western Canada provide a very liquid market for the exchange of assets. In both jurisdictions, there is a growing trend for the established companies to rationalize their producing assets. The senior producers are selling assets to redirect their resources to new frontier areas. This provides a great buying opportunity for smaller companies that can achieve significant percentage growth from a smaller production platform.

Balsam

Bow Valley drilled its first natural gas exploration discovery in July 2002 which commenced production in late October at rates in excess of 10 (6.25 net) mmcf/d of natural gas. A competitor drilled an offset well into the same pool and commenced competitive drainage in February 2003. Bow Valley will aggressively produce this well to accelerate production and optimize reserve recovery and economics. The Company has an interest in several wells on offsetting lands where tie-in, workover and recompletion potential will be pursued in 2003.



Earring

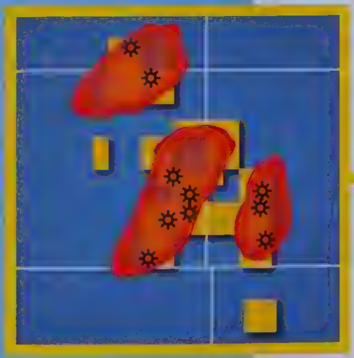
Bow Valley owns an interest in four natural gas wells that produce from the Spirit River Formation at a shallow depth of 630 metres. In February 2003, Bow Valley drilled a deep 1,900-metre exploratory well that found natural gas pay in several zones. Production commenced in mid-March at approximately 2 (1.4 net) mmcf/d from the Kiskatinaw formation. The Company is evaluating the potential to dual complete the well in an additional zone.

Gilby

The Company produces liquids-rich natural gas from the Glauconite zone in the Gilby area. Production of approximately 2 mmcf/d net to Bow Valley originates from seven wells. One additional well remains to be tied-in. Bow Valley has actively participated in Crown land sales in the Gilby area where the Company continues to identify further drilling and asset acquisition opportunities.

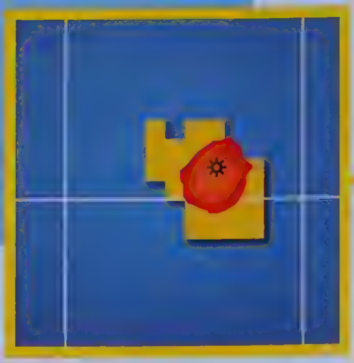
Highvale

Bow Valley produces approximately 3 mmcf/d of net gas from the Highvale area. Production is from shallow Belly River and deeper Ellerslie pay zones. Bow Valley is the operator of 10 wells and three compressor stations in the area. The Company has actively pursued optimization efforts including workovers, adding field compression and development drilling. The Company will focus on shallow zone potential during 2003.



Mirage

Bow Valley drilled an exploration success at Mirage, Alberta in February 2003. The well was pipeline-connected and commenced production in March 2003. Production from the well is approximately 700 mcf/d of net natural gas and the Company intends to follow up the discovery with additional locations on Company-controlled lands.



Western Canada
Haro/Boyer
904 bcf
Nig Creek
500 bcf
Rigel
588 bcf
FIREWEED
BALSAM
EARRING
MIRAGE
Fort St. John
Peace River
Dawson Creek
POUCE COUPE
Dunvegan
1.45 tcf
Grande Prairie
Mitsue
770 mmbbls
Swan Hills
2.6 billion bbls
Wembley
200 bcf
Redwater
1.3 billion bbls
Cardiff
24 bcf
Edmonton
Beaverhill Lake
270 bcf
HIGHVALE
Pembina
7.7 billion bbls
Minnehik
1 tcf
British Columbia
Alberta
GILBY
Red Deer
Willesden Green
890 mmbbls
Crossfield
1.3 tcf
Calgary
Amid the Giants
Gas Fields
Oil Fields
BVX Interest Area

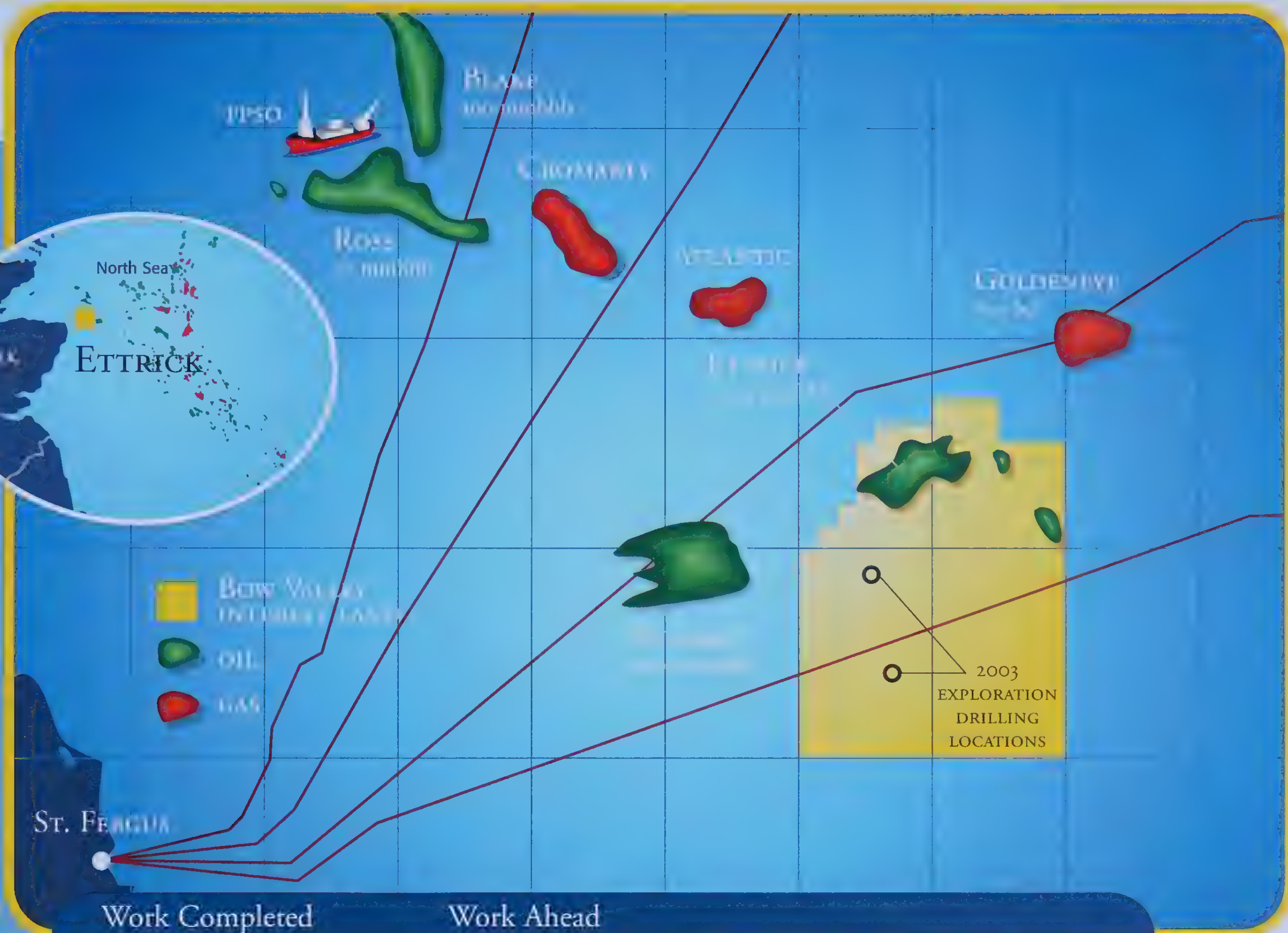
U.K. Exploration – The Next Generation

A changing of the guard is underway in the U.K. North Sea as the established, dominant exploration and production companies dispose of their U.K. assets in search of higher-impact plays in frontier areas. They are leaving behind a huge infrastructure that was developed over the past 30 years. This includes offshore production platforms, pipelines, a ready fleet of drilling rigs and other services. Onshore it includes natural gas plants, refineries, distribution networks and access to one of the world's largest consuming markets, the European Union. As this process unfolds, a new generation of nimble, quick and eager oil and natural gas companies is establishing itself in the U.K. to capitalize on the emerging opportunities. Bow Valley is one such company.

Strong evidence that the North Sea contains significant remaining opportunities came with the discovery at Buzzard, announced in 2001. The operator has announced it probably contains in excess of 400 million barrels of recoverable oil reserves. More significant than the size of the pool is the nature of the discovery. Buzzard is a stratigraphic trap, a different geologic model from the conventional structural traps that dominated early exploration. If Buzzard indeed unleashes a new wave of discoveries in the North Sea, then it can be said to represent the next generation of exploration in a maturing basin.

With the North Sea's easily identified structures drilled and evaluated, how much more oil and natural gas can be found in this basin? Bow Valley believes that by using new exploration concepts it can establish a niche as a new explorer in a relatively mature basin. Buzzard is already proving the conventional wisdom – that all the major pools were long-since drilled – to be flat wrong. This opportunity is presenting itself, coincidentally, at a time when exploration land is available and the competition is diminishing. The next generation of oil company is gradually coalescing in the North Sea. Bow Valley has a strategic advantage in this landscape because of its working knowledge of the basin, its large network of contacts and its willingness to pursue an exploration agenda.

True success will depend not only on discovering new pools, but also on bringing them into production at low cost. Bow Valley aims to become a low-cost operator in the North Sea by focusing on exploration and development opportunities lying close to existing infrastructure. The capital required to develop a field with subsea tie-back to existing facilities, averting the need to construct new, standalone production platforms, is much less and renders some smaller fields economic to develop.



Work Completed

- Completed technical studies and evaluations of Ettrick Field
- Awarded new exploration licence over 115,600 gross acres in Blocks 20/3c, 20/7b and 20/8

Work Ahead

- Drill two exploration wells in 2003
- Carry out 3-D seismic acquisition survey over blocks awarded in 2002
- Seismic reprocessing and interpretation
- Commercial discussions with Buzzard operator to develop the Ettrick Field

Ettrick Field

Bow Valley has established an enviable exploration position in the Ettrick area of the U.K. North Sea. In 1998, the Company acquired various interests in three licences over contiguous blocks in what has become one of the hottest exploration areas in the U.K. offshore with the Buzzard discovery in 2001. The undeveloped Ettrick discovery is situated across two of these blocks and Bow Valley holds 11.75 percent of the pre-unitized field.

In 2002, Bow Valley participated with two other companies in an application to the U.K. 20th Offshore Licensing Round for a new licence on lands adjacent to the Ettrick Field. The bid was accepted and a licence was awarded by the U.K. Department of Trade and Industry. Bow Valley holds a 25 percent interest in the new licence over two partial blocks and one full block covering 115,600 gross acres. From existing 2-D seismic, two prospects have been identified on Bow Valley interest lands on which exploration wells will be drilled in 2003. Bow Valley's interests in the exploration wells is 12.5 percent and 25 percent respectively. Bow Valley and co-venturers will carry out a 3-D seismic acquisition survey over approximately 500 km² to evaluate several other exploration leads on the blocks. This is expected to result in other prospects being defined for further exploration drilling in the area.

Offshore U.K.

Kyle Field Development

Kyle is a unique oil and natural gas field in the North Sea. There are two producing formations: a Cretaceous Chalk formation and a Paleocene Sand formation. Both formations are uplifted by an underlying salt diapir that has pierced the sedimentary section and caused significant faulting and micro-fracturing in the reservoirs. The reservoirs are separate and not in pressure communication with each other. This scenario of multiple, fractured reservoirs and dual-phase production creates an extremely difficult field to develop, manage and forecast production performance. Despite this, the field is performing well.

During 2002, the Kyle partnership group drilled the field's fourth development well. As of year-end 2002, the field is now producing from three wells completed in the Cretaceous Chalk reservoir and one well completed in the Paleocene Sandstone reservoir. Due to a reservoir phenomenon of gas breaking out of solution and a resultant decrease in oil recovery, the field is being produced on a restricted gas-to-oil ratio. This will optimize the ultimate oil recovery while managing the best economic return from the field. It was on the merits of this prudent reservoir management and production performance that Bow Valley acquired an additional 1.79 percent interest in the Kyle Field in the second quarter of 2002, increasing its total interest to 14.29 percent.

Although mature to the major players, the North Sea offers substantial growth opportunities for aggressive small and mid-sized companies.

Kyle's production is transported approximately 15 km by pipeline to Curlew and a Floating Production, Storage and Offloading (FPSO) vessel for processing. Sales oil is offloaded into a tanker and natural gas is transported to shore via a subsea pipeline where it is sold. An incident occurred in early April 2002 in which the natural gas sales pipeline developed a hydrate blockage forcing the shut-in of both the natural gas and the oil production from Kyle. Repair required nearly three months during which no sales volumes were delivered.

Production at Kyle resumed in early July and the field has performed without incident since. Following the successful fourth well and the increase in its working interest, Bow Valley achieved record production volumes during the second half of 2002. Production from the field during the first quarter of 2003 is approximately 8,000 (1,140 net) bbls/d of oil and 25 (3.57 net) mmcf/d of natural gas.

As a result of the pipeline blockage and a debate on how and why this occurred, certain costs associated with repairing the pipeline, fixed operating costs, send or pay obligations on the natural gas pipeline and business interruption have become insurance and commercial issues for Bow Valley to pursue in an attempt to recover some of these costs. Bow Valley has expensed all of these costs in its 2002 financial statements and any recovery will be recognized in the year received. As a result, certain measures of financial performance, particularly as they pertain to operating costs, will appear unusually high in 2002.

Work Completed

- Drilled and tied-in fourth well in 2002
- Acquired an additional 1.79 percent working interest

Work Ahead

- Consider and evaluate alternatives to optimize production and recovery by extending field life
- Encourage third-party production through FPSO
- Negotiate extension to FPSO contract
- Pursue recovery of 2002 pipeline interruption costs

During 2003, the partnership group at Kyle will investigate ways to optimize field operations. The biggest challenge is to extend the life of the field by integrating production facilities in the area. Third-party production is already processed along with Kyle production at the Curlew FPSO and recent production performance indicates that the third-party production life may be extended, thereby reducing the daily operating costs to Kyle partners and possibly allowing an extension of Kyle field life. A concept to send production from the Paleocene well, which operates at a lower pressure, to an FPSO at Banff has also been discussed with the owner of the Banff FPSO. Installation of natural gas compression and development of other satellite fields in the area are other possible options to extend the life of the Kyle Field.

David A. Fleming
Vice President, International

Onshore U.K.

Wessex Basin

Last year, Bow Valley highlighted its land position in the Wessex Basin, onshore southern England. The Company assembled 64,000 net undeveloped acres of land up-dip from the famous Wytch Farm oil field. Wytch Farm is the largest oil field in onshore Europe and Bow Valley was pursuing an exploration concept that considered oil migration pathways to charge similar structures. Bow Valley acquired a large seismic database and mapped several undrilled structures on Company lands.

The most promising prospect was identified at West Compton and Bow Valley drilled an exploration test well (45 percent working interest) in July 2002. Good reservoir rock was encountered in the well, but oil shows were absent and the well was abandoned. The Company believes it tested a valid structure with four-way closure and the lack of oil challenges the original oil migration theory.

There still remain several untested structures on Bow Valley's land, but the Company is reluctant to invest additional capital in this risky venture. In February 2003, Bow Valley announced the sale of its onshore U.K. landholdings for £500,000 (approximately Cdn$1.2 million) plus the retention of an over-riding royalty on any future production. The sale recovers a large portion of Bow Valley's cost to drill the West Compton well while enabling the Company to continue participation in any future exploration success through its retained royalty ownership.

Onshore France

Paris Basin

Entering 2002, Bow Valley owned an interest in three exploration licences in the Paris Basin, onshore France. The licences comprised 600,000 (484,500 net) acres of oil and natural gas rights. During 2002, Bow Valley reprocessed and interpreted an extensive seismic database and evaluated its entire land position. The study identified one exploration prospect on the Chante Merle licence which Bow Valley considers too small and uneconomic to drill.

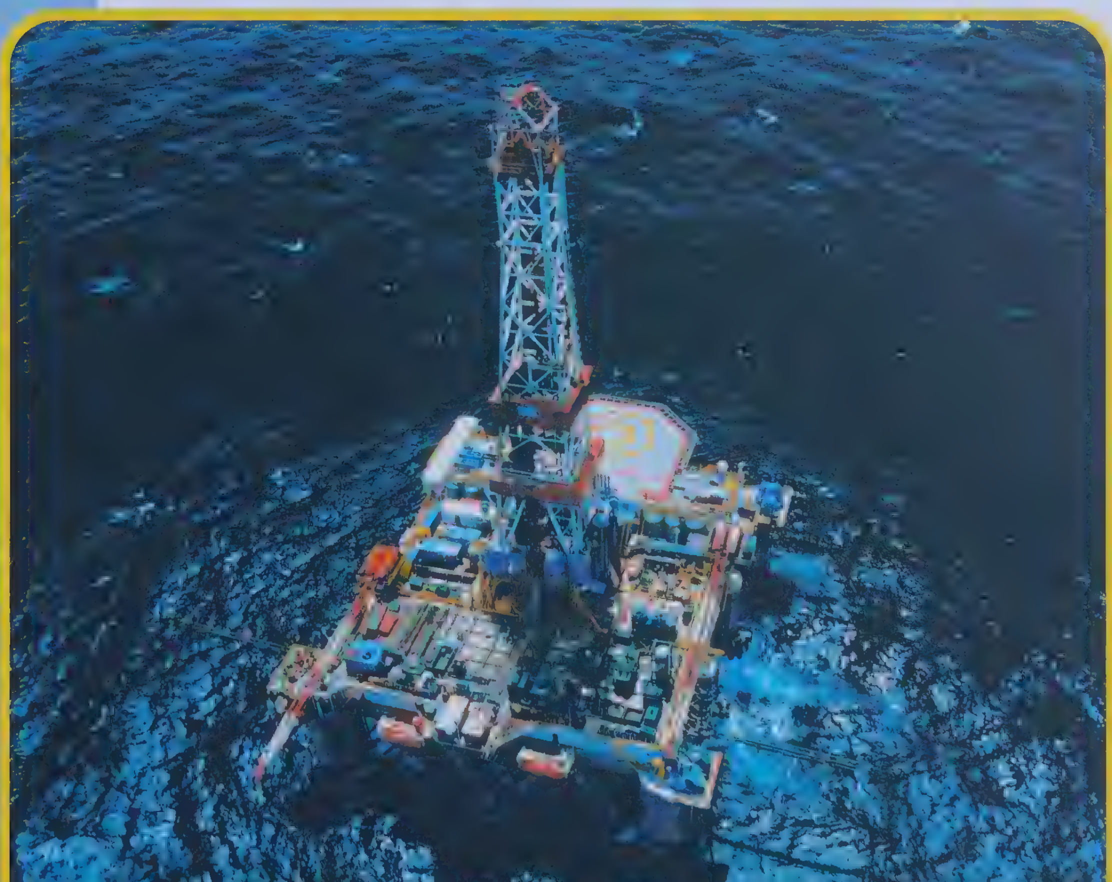
Bow Valley subsequently applied to the French government to relinquish two of the licences. The first of these, known as Saint Jean aux Bois, was formally relinquished in 2002 and the second, Mont St Pere, in early 2003. The third licence is still being evaluated by joint venture partners and a decision will be made on whether or not to relinquish it in 2003. Upon completion of this process, the Company does not intend to pursue future exploration in France.

Offshore Iran

Balal Field

In April 1999, Bow Valley and Elf Petroleum Iran (EPI) signed a buyback service contract with the National Iranian Oil Company to develop the Balal oil field in the Persian Gulf. In 2001, Agip Iran joined EPI and Bow Valley in the contract. The concept of the buyback contract and Bow Valley's obligations for the development of the Balal Field have been previously reported. During 2002, the construction, installation and commissioning of the wellhead and process platforms were completed and a second production well was drilled. Production from the field commenced in January 2003 at a rate of approximately 25,000 bbls/d of oil. The drilling of three additional production wells and five water injection wells will continue through 2003 and total field production is expected to reach 40,000 bbls/d of oil by year-end.

Bow Valley satisfied its financial obligations on the project in 1999. With the commencement of production, the Company will begin to recover its share of capital costs and remuneration from the project in 2003. Full recovery is expected within three years.



Western Canada – The Next Generation

Western Canada is also undergoing a paradigm shift as the industry restructures itself to compete in a mature basin. Thirty to fifty years ago, the Western Canada Sedimentary Basin was dominated by major oil companies that found large reserves capable of supporting their corporate structure. Today, the folklore persists of how huge finds made individual oil companies. The legendary Leduc discovery in 1947 helped establish Imperial Oil in Canada, the Swan Hills discovery made Home Oil, the Dunvegan discovery built Anderson Exploration, and the list continues.

As the basin matured and discoveries became smaller, it became more difficult for these companies to replace reserves and production. Most of the historical major oil companies departed and new intermediate-sized independents emerged, flourishing on smaller, yet still profitable discoveries. Years later these companies also disappeared, only to be replaced recently by the royalty trusts.

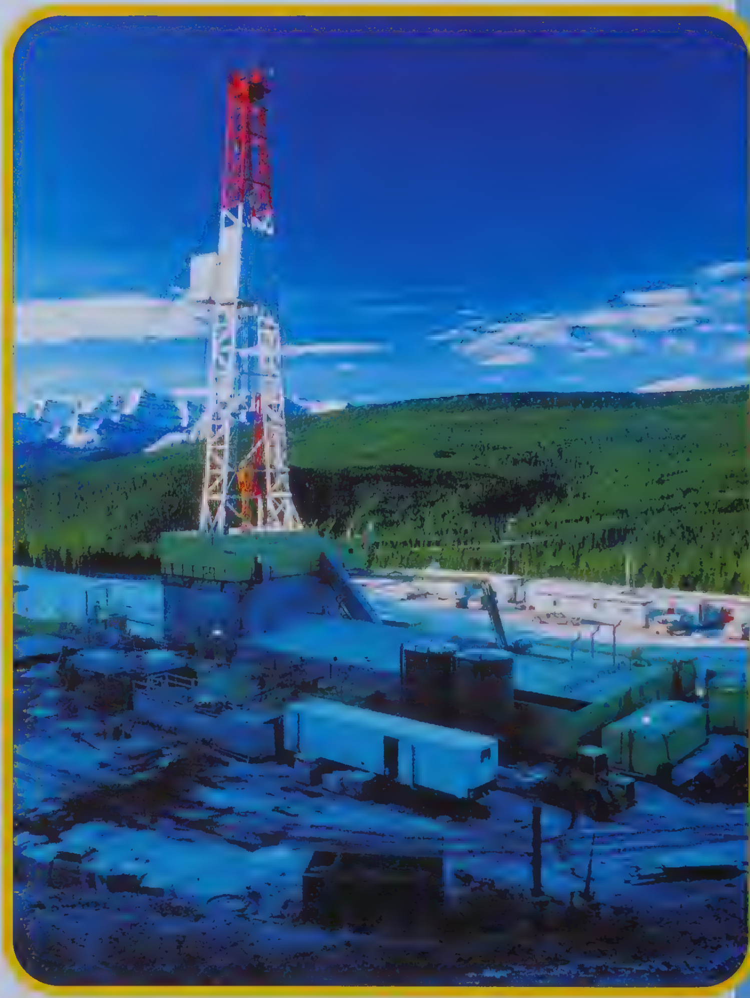
In this environment, smaller companies still have a niche opportunity to become established, to grow and to flourish. More important, a small company that is willing to explore has an advantage over the royalty trusts which, by definition, are not explorationists. The evolution of the basin can best be explained by the relative size of average new pool discoveries versus average corporate size. As the basin matures, the economics increasingly favour the small, but technically proficient and financially disciplined companies. This is the growth model Bow Valley is pursuing in western Canada.

2002 Drilling Launch

Bow Valley launched its western Canada drilling program in 2002 focused on natural gas exploration prospects in the Peace River Arch area of northwest Alberta and northeast British Columbia. Geological and seismic mapping within this region demonstrates opportunities for multi-zone, high impact, stratigraphic prospects that have significant reserves potential.

Bruce Duncan, Senior Geophysicist
Andrew Arthur, Senior Geologist
Greg Crowell, Senior Geologist

The goal is to create core areas that have excellent exploration potential plus available land, plant and pipeline capacity. The Company has identified three areas that meet these criteria – north central Alberta, the Peace River Arch and northeast British Columbia.



Bow Valley is focused on exploration in the Cretaceous, Triassic, Mississippian and Devonian-age stratigraphic sequences within these three areas. The geologic setting of these formations provides exploration opportunities with recoverable gas reserves from 2-50 bcf with reservoirs capable of delivering 2-20 mmcf/d of natural gas.

In 2002, Bow Valley pursued a two-part strategy to manage the inherent risk of full-cycle exploration. The first part involved creating a prospect inventory, using seismic to refine drillable locations. The Company acquired Crown land or negotiated farm-in opportunities to control the prospects. A sizeable prospect inventory is beginning to emerge from the Company's exploration effort.

The second part of Bow Valley's risk management strategy was the acquisition of Boundary Creek in 2002. Boundary Creek provided Bow Valley with high quality, operated natural gas production in areas with further drilling and optimization potential; undeveloped lands; and a large proprietary seismic database within the three identified focus areas.

In 2002, Bow Valley participated in drilling 11 (7.65 net) wells, including eight (6.55 net) operated projects. The program resulted in three (two net) natural gas wells, of which one was on production at year-end and two remained to be tied-in. Two (0.65 net) of the remaining eight wells were completed for natural gas, but are non-commercial and six (five net) were abandoned.

One of the Company's most recent discoveries in the Earring area was evaluated and developed with the use of the proprietary seismic from the acquisition of Boundary Creek. The well was quickly tied-in to existing infrastructure and is currently producing natural gas at 2.0 (1.4 net) mmcf/d from the deepest of five potential natural gas pay zones.

Bow Valley has budgeted $15 million to conduct an exploration program in western Canada in 2003. This program will be internally financed from Bow Valley's Canadian production base. The Company plans to drill 15-20 exploration wells, all of them targeting natural gas, during the year.

Operations Statistical Review

Production

Going into 2002, Bow Valley's production originated from a single producing field at Kyle in the U.K. North Sea. The Company's primary objective for 2002 was to establish a second production base in western Canada. This was accomplished through the acquisition of Boundary Creek Resources Ltd. in the third quarter, which included production of approximately 1,100 boe/d. At closing, Bow Valley assumed effective ownership of approximately 25 producing wells in Alberta and assets consisting primarily of operated natural gas properties including core areas at Gilby and Highvale in west central Alberta. Bow Valley's 2002 exploration successes added a further 1,200 boe/d from new discoveries.

In the U.K., production was solely from the Kyle Field where a fourth well was drilled and tied-in at mid-year. The Company increased its working interest in the field by an additional 1.79 percent raising its total interest to 14.29 percent. Production was severely reduced during the second quarter due to a blockage in the natural gas export line, which prevented natural gas sales for the entire quarter. Although some oil was produced at a reduced rate during the quarter, no liftings occurred. Production and sales resumed at full capacity in early July, resulting in average net production in the U.K. of 1,358 bbls/d and 2.0 mmcf/d of gas (1,691 boe/d) for the year. The Company's fourth-quarter production of 4,495 boe/d was an increase of 133 percent from the 2001 yearly average.

Drilling

Bow Valley participated in the drilling of 13 wells during 2002, including 11 that targeted natural gas in Alberta. The remaining two wells were drilled at Kyle and West Compton in the U.K. The Company operated nine of its drilling projects during the year, including the West Compton well drilled onshore in the U.K.

Drilling Activity – 2002

	U.K.		Canada	
	Gross	Net	Gross	Net
Oil	1	0.14	–	–
Natural gas	–	–	3	2.00
Abandoned	1	0.45	6	5.00
Natural gas suspended	–	–	2	0.65
Total	**2**	**0.59**	**11**	**7.65**

Land

Land acquisition and farm-in initiatives were critical to the execution of Bow Valley's exploration strategy in western Canada during the year. In western Canada, Bow Valley acquired 9,088 net acres of Crown and freehold petroleum and natural gas interests within Alberta at public Crown land sales. The Company earned an additional 5,629 net acres of land by drilling on third-party farm-ins during the year. Bow Valley acquired an additional 23,374 net acres of undeveloped land with the acquisition of Boundary Creek Resources Ltd.

Internationally, the Company's land position was increased by the U.K. 20th Offshore Licencing Round award of 115,600 (28,900 net) acres and other small additions. The increase was offset by the relinquishment of one exploration permit onshore France consisting of 213,280 (202,000 net) acres.

Landholdings

At December 31, 2002

	Undeveloped		Developed	
(acres)	Gross	Net	Gross	Net
International				
U.K. offshore	225,048	40,505	13,912	1,988
U.K. onshore	150,976	63,949	–	–
France onshore	386,720	282,500	–	–
Total international	762,744	386,954	13,912	1,988
Total domestic	65,139	38,338	35,443	12,079
Grand total	**827,833**	**425,292**	**49,355**	**14,067**

Reserves

Bow Valley's crude oil, natural gas liquids and natural gas reserves increased during 2002 as a result of acquisitions and drilling activity undertaken in both Canada and the U.K. The Company's properties were evaluated by the independent engineering firms APA Petroleum Engineering Inc. (U.K. properties) and Ryder Scott Company (Canadian properties) effective December 31, 2002. Established (proved plus 50 percent probable) oil and natural gas liquids reserves totalled 8.6 million barrels at December 31, 2002, while natural gas reserves ended the year at 30.4 billion cubic feet. This represents an increase of 2.9 million boe or 27 percent year-over-year. The net present pre-tax value of Bow Valley's established reserves, discounted at 10 percent, was estimated at $78.9 million at year-end, an increase of 24 percent over the $63.5 million reported at year-end 2001, reflecting reserve additions during the year.

In the U.K., additions and revisions occurred as a result of drilling a fourth development well at Kyle, the acquisition of an additional 1.79 percent working interest in the Kyle Field and changes to the development plans and related cost/timing effects of Bow Valley's discovered non-producing field interests.

Bow Valley entered 2002 with no reserves booked to any Canadian properties. During the year, the vast majority of additions in Canada (more than 85 percent) consisted of natural gas reserves from the acquisition of Boundary Creek and the results of the Company's exploration drilling program in western Canada.

Finding and Development Costs

Finding and development costs incurred during the year in Canada were $18.31 per boe on a proved basis and $14.88 per boe for proved plus probable reserves. Management acknowledges that this high level of finding and development cost is not acceptable in the medium to long-term. Expenditures related to land and seismic acquisition during the first full year of Bow Valley's Canadian exploration program and the goodwill paid for the strategic acquisition of Boundary Creek negatively affected finding and development costs during 2002. The Company's finding and development cost performance is expected to improve as the value of initial investments to establish a presence in western Canada is realized over a longer timeframe.

C. Dean Setoguchi, Vice President, Finance
John W. Essex, Vice President, Operations

Reserve Volumes and Net Present Values

At December 31, 2002

	Crude oil (mmbbls)	Natural gas (bcf)	Ngls (mmbbls)	Combined (mmboe)	Net present values (Cdn$ million) before income tax, discounted at: 0%	8%	10%	12%	15%
U.K.									
Proved producing	1.11	8.79	–	2.58	17.49	17.15	17.05	16.95	16.79
Proved non-producing	0.87	0.54	–	0.96	2.92	1.43	1.14	0.88	0.54
Total proved	1.98	9.33	–	3.54	20.41	18.58	18.19	17.83	17.33
Probable (unrisked)	12.60	20.25	–	15.98	134.72	78.67	69.11	60.85	50.44
Proved plus probable	14.58	29.58	–	19.51	155.13	97.25	87.30	78.68	67.77
Established	8.28	19.46	–	11.52	87.77	57.92	52.75	48.26	42.55
Canada									
Proved producing	0.03	8.67	0.20	1.68	28.50	22.90	22.00	21.22	20.20
Proved non-producing	–	1.02	0.02	0.19	3.41	1.92	1.72	1.55	1.35
Total proved	0.03	9.69	0.23	1.87	31.91	24.82	23.72	22.77	21.55
Probable (unrisked)	–	2.48	0.07	0.49	7.56	5.24	4.87	4.54	4.14
Proved plus probable	0.03	12.17	0.30	2.36	39.47	30.06	28.59	27.31	25.69
Established	0.03	10.93	0.26	2.12	35.69	27.44	26.16	25.04	23.62
Total									
Proved producing	1.14	17.46	0.20	4.25	45.99	40.05	39.05	38.17	36.99
Proved non-producing	0.87	1.56	0.02	1.15	6.33	3.35	2.86	2.43	1.89
Total proved	2.01	19.02	0.23	5.40	52.32	43.40	41.91	40.60	38.88
Probable (unrisked)	12.60	22.73	0.07	16.47	142.28	83.91	73.98	65.39	54.58
Proved plus probable	14.61	41.75	0.30	21.87	194.60	127.31	115.89	105.99	93.46
Established	8.31	30.38	0.26	13.64	123.46	85.36	78.90	73.30	66.17

Totals may not add due to rounding.

Reserves Reconciliation

At December 31, 2002

	Crude oil & ngls (mmbbls)			Natural gas (bcf)			Combined (mmboe)		
	U.K.	Canada	Total	U.K.	Canada	Total	U.K.	Canada	Total
Total proved									
December 31, 2001	2.18	–	2.18	9.88	–	9.88	3.83	–	3.83
2002 production	(0.50)	(0.04)	(0.53)	(0.78)	(1.31)	(2.08)	(0.62)	(0.25)	(0.88)
Additions and revisions	0.09	0.08	0.16	(1.13)	4.42	3.29	(0.10)	0.81	0.71
Acquisitions	0.21	0.22	0.43	1.36	6.57	7.93	0.44	1.31	1.75
Dispositions	–	–	–	–	–	–	–	–	–
Total proved	1.98	0.26	2.24	9.33	9.69	19.02	3.54	1.87	5.41
Reserve life index (years)	3.99	6.95	4.20	12.03	7.42	9.14	5.66	7.35	6.15
Probable (unrisked)									
December 31, 2001	10.99	–	10.99	16.09	–	16.09	13.67	–	13.67
Additions and revisions	1.51	0.01	1.52	3.55	0.98	4.53	2.10	0.18	2.28
Acquisitions	0.30	0.06	0.36	0.70	1.50	2.20	0.42	0.32	0.73
Dispositions	(0.22)	–	(0.22)	(0.09)	–	(0.09)	(0.24)	–	(0.24)
Probable	12.58	0.08	12.66	20.25	2.48	22.73	15.96	0.49	16.45
Total proved + probable	14.56	0.33	14.89	29.58	12.17	41.75	19.49	2.36	21.85
Reserve life index (years)	29.37	9.05	27.97	38.14	9.32	20.06	31.19	9.28	24.85
Total established	8.27	0.29	8.56	19.46	10.93	30.38	11.51	2.12	13.63
Reserve life index (years)	16.68	8.00	16.08	25.09	8.37	14.60	18.42	8.32	15.50

Totals may not add due to rounding.

Summary of Price Forecasts – Escalated

	APA		Ryder Scott	
Year	Crude oil – Brent US$/bbl	U.K. natural gas Cdn$/mmbtu	Crude oil – Edmonton Light Cdn$/bbl	Average Alberta natural gas Cdn$/mmbtu
2003	$25.38	$4.39	$38.29	$4.92
2004	$21.81	$3.77	$34.84	$4.49
2005	$20.58	$3.80	$33.00	$4.53
2006	$20.37	$3.76	$32.72	$4.56
2007	$20.37	$3.76	$32.45	$4.60

Management's Discussion and Analysis

Bow Valley Energy Ltd. achieved significant improvement in many areas of its financial and operational performance in 2002. This performance reflects the Company's success in balancing production between oil and natural gas and diversifying geographically between Canada and the U.K.

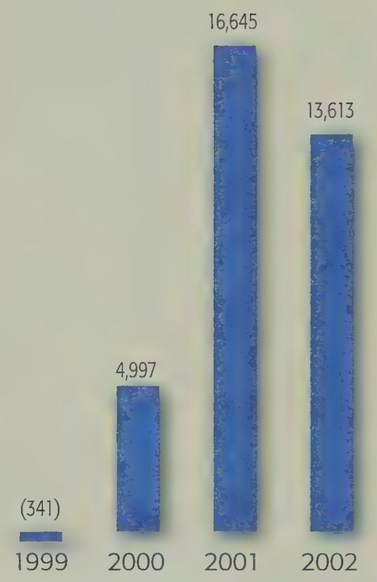
The following discussion details Bow Valley's 2002 financial results compared to 2001 and 2000 and discusses the Company's capital program and outlook for 2003.

Management's discussion and analysis should be read in conjunction with the consolidated financial statements and notes contained in this annual report. Certain statements throughout this report are forward-looking and are based on information currently available. Actual results may vary from the estimates and the variations may be significant. Where amounts are expressed on a barrel of oil equivalent (boe) basis, natural gas volumes have been converted to barrels at six thousand cubic feet to one barrel (6 mcf = 1 bbl). This conversion ratio approximates the relative energy content between natural gas and oil. All figures are reported in Canadian dollars, unless otherwise stated.

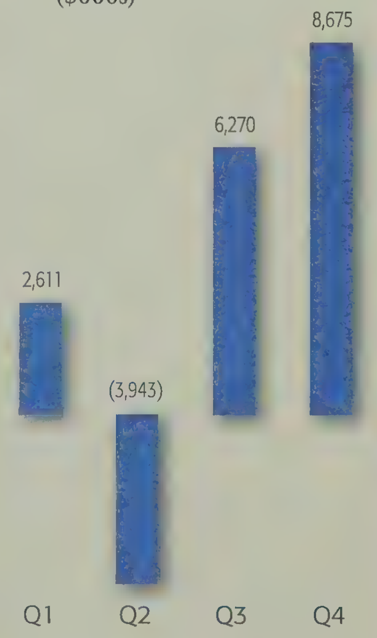
Cash Flow Summary

	2002			2001		
	($000s)	($/boe)	%	($000s)	($/boe)	%
Petroleum and natural gas revenue	31,605	35.94	100	24,365	34.64	100
Interest and other	157	0.18	–	120	0.17	–
Royalties	(1,665)	(1.89)	(5)	–	–	–
Net revenue	30,097	34.23	95	24,485	34.81	100
Operating costs	12,812	14.57	41	6,117	8.70	25
Operating netback	17,285	19.66	55	18,368	26.11	75
General and administrative costs	2,472	2.81	8	1,296	1.84	5
Interest expense	605	0.69	2	441	0.63	2
Foreign exchange loss (gain)	420	0.48	1	(24)	(0.03)	–
Current taxes	175	0.20	1	11	0.02	0
	3,672	4.18	12	1,724	2.46	7
Cash flow from operations	13,613	15.48	43	16,645	23.65	68

Cash Flow ($000s)



2002 Quarterly Cash Flow ($000s)



Production
(boe/d)

2002 Quarterly Production
(boe/d)

Key Events

Boundary Creek acquisition: Bow Valley acquired all of the shares of Boundary Creek Resources Ltd. (Boundary Creek) on August 29, 2002. The acquisition provided Bow Valley with a strategic growth platform in the west central and Peace River Arch areas of Alberta from which to build its natural gas-focused western Canadian business plan. The acquisition helped Bow Valley achieve a balanced portfolio of oil and natural gas production and provided diversified production base between Canada and the North Sea. The consolidated financial statements include the results of operations of Boundary Creek from the acquisition date.

Kyle, U.K. production issues: All financial and operating results for the year were negatively affected by a blockage in the natural gas sales line at Kyle in the U.K. North Sea during the second quarter. As a result, the Company recorded minimal sales during this period while continuing to incur fixed operating costs as well as expenses to repair the pipeline. Bow Valley and its joint venture partners at Kyle continue to pursue recovery of costs related to the blockage in the natural gas sales pipeline.

Production

	2002	2001	2000
Oil and ngls (bbls/d)			
Canada	101	–	
U.K.	1,358	1,472	667
Total	1,459	1,472	667
Natural gas (mmcf/d)			
Canada	3.7	–	–
U.K.	2.0	2.7	–
Total	5.7	2.7	–
Oil equivalent (boe/d)			
Canada	711	–	
U.K.	1,698	1,927	667
Total	2,409	1,927	667

Crude oil and natural gas production in the U.K. was lower in 2002 compared to 2001 due to the gas pipeline blockage at Kyle which severely restricted production for the entire second quarter.

The net production increases for the year were attributable to Canadian operations, where the Boundary Creek acquisition contributed 1,100 boe/d during the last four months of the year while the Canadian exploration program contributed more than 1,000 boe/d during the fourth quarter. Since all Canadian production was added during the second half of the year, average rates are significantly lower when expressed on an annual basis.

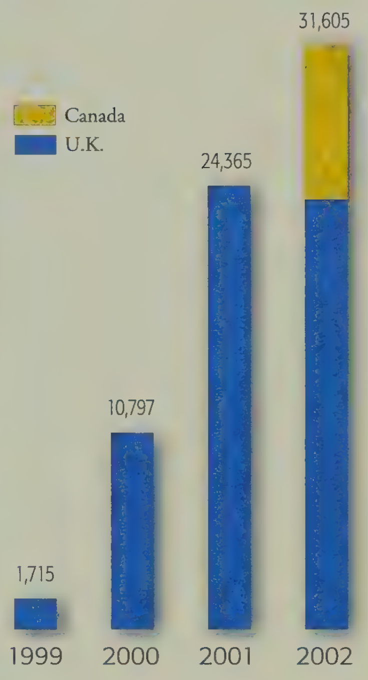
Petroleum and Natural Gas Revenue

(000s, except as noted)	2002	2001	2000
Oil and ngls			
Canada	1,166	–	–
U.K.	19,945	21,593	10,797
Total	21,111	21,593	10,797
Hedge loss	(450)	–	–
Net oil revenues	20,661	21,593	10,797
Per bbl ($/bbl)			
Canada	31.73	–	–
U.K.	43.57	40.16	44.86
Total	39.65	40.16	44.86
Hedge loss	(0.85)	–	–
Net oil revenues	38.80	40.16	44.86
Natural gas			
Canada	7,258	–	–
U.K.	3,686	2,771	–
Total	10,944	2,771	–
Per mcf ($/mcf)			
Canada	5.56	–	–
U.K.	4.75	2.80	–
Total	5.26	2.80	–
Total operating revenue	31,605	24,365	10,797
($/boe)	35.94	34.64	44.86
Percentage of gross revenue			
Oil and ngls	65%	89%	100%
Natural gas	35%	11%	0%

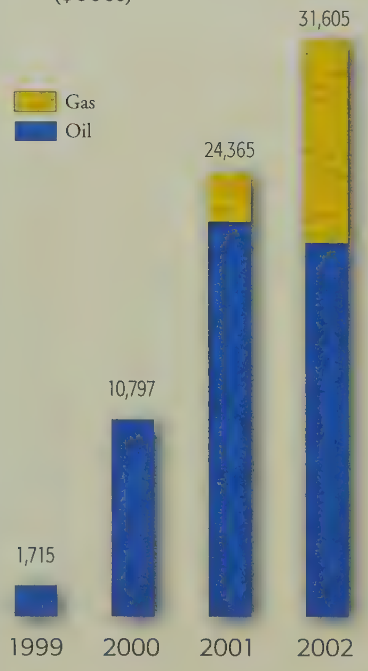
Average Benchmark Prices

	2002	2001	2000
Crude oil			
WTI Cushing – US$/bbl	26.08	25.90	30.20
Brent – US$/bbl	24.95	24.42	28.40
Edmonton Light – Cdn$/bbl	39.94	39.18	44.33
Natural gas			
AECO C – Cdn$/mmbtu	4.07	6.30	5.02
Average exchange rates			
US$/Cdn$	0.637	0.646	0.673
BPS/Cdn$	0.424	0.448	0.444

Revenue by Country
($000s)



Revenue by Commodity
($000s)



United Kingdom

Crude oil sales were lower in 2002 despite higher per barrel sales prices. The net decrease in revenues was due to lower sales volumes. All of the crude oil sales in 2002 were related to the Kyle Field. Crude oil from the Kyle Field is stored on the Floating Production, Storage and Offloading (FPSO) vessel until enough inventory is accumulated to fill a tanker load of approximately 0.5 million barrels. This process takes approximately 45-60 days. The tanker loads typically earn a premium over the Brent benchmark price, ranging between US$0.50 and US$1.50 per barrel. The Brent price is measured over the average price for the month the shipment is made or the six-day average price after the tanker discharges from the FPSO.

Natural gas revenues increased despite lower sales volumes in 2002. The higher revenues were the result of high natural gas prices which averaged $4.75 per mcf in 2002. Natural gas in the U.K. is contracted on an annual basis each October. The price is set each year and is calculated according to the arithmetical average of the natural gas and oil price for the previous year in Great Britain as well as historical index prices for natural gas. The only variable during the contract year results from fluctuations in the British pound sterling to Canadian dollar exchange rate.

Canada

Oil and liquids prices are generally low compared to the Edmonton Light reference prices. Bow Valley has a high component of liquids production that includes pentanes, butanes and ethanes that result in a low price when expressed on a boe basis.

Natural gas is sold on a daily Alberta spot market basis.

Commodity Price Risk Management

From time to time, the Company enters into contracts to hedge crude oil and natural gas prices on a portion of its production to mitigate exposure to falling prices. The Board of Directors has authorized management to hedge up to 50 percent of future production 12 months in advance and up to 25 percent of future production up to 24 months in advance. Bow Valley does not engage in speculative hedges.

The Company incurred a charge of $0.45 million relating to hedging activities during the year. Please refer to note 13 of the consolidated financial statements for more information on hedging.

Royalties

		2002	
(000s, except as noted)	Canada	U.K.	Total
Crown royalties	1,559	–	1,559
Other royalties	469	41	510
	2,028	41	2,069
ARTC	(404)	–	(404)
Net royalties	1,624	41	1,665
% of revenue	19%	0%	5%

There is no royalty payable on oil or natural gas production in the U.K. and consequently no royalties were paid prior to 2002 when 100 percent of Bow Valley's production originated in the U.K. Royalties are payable to the Crown on oil and natural gas production in Canada. In September 2002, the Company commenced payment of a gross overriding royalty equal to US$0.10 per barrel on oil production to a third party. This royalty payment relates to the Kyle Field and is payable on cumulative net production exceeding 870,000 barrels of oil.

Operating Expenses

($000s, except as noted)	2002 Canada	2002 U.K.	2002 Total	2001	2000
Operating expenses	999	14,666	15,665	6,646	5,880
Pipeline interruption expenses	–	1,925	1,925	–	–
Tariff recovery	–	(4,778)	(4,778)	(529)	–
Net operating expenses	999	11,813	12,812	6,117	5,880
Net operating expenses per boe	3.85	19.06	14.57	8.70	24.15
Pipeline interruption expenses per boe	–	3.11	2.19	–	–

Most of the operating expenses in the U.K. are fixed in nature and relate to the operation of the FPSO for the Kyle Field. The owners of the Kyle Field receive a third-party tariff fee for processing third-party production from the neighbouring Curlew Field. The amount of fees earned from this tariff is expected to decrease over time as production from the Curlew Field declines.

Operating expenses expressed on a per boe basis were significantly higher in 2002. In addition to the $1.9 million incurred to repair the natural gas sales pipeline at Kyle, the Company continued to incur substantial operating expenses during the second quarter while production was severely constrained.

General and Administrative Expenses (G&A)

($000s, except as noted)	2002	2001	2000
Regular G&A	2,723	2,136	1,873
One-time expenses			
Management change	404	–	–
U.K. office costs	295	–	–
	699	–	–
Overhead recoveries	(162)	–	–
Subtotal	3,260	2,136	1,873
Capitalized overhead	(788)	(840)	(1,235)
G&A as reported	2,472	1,296	638
Per boe – $/boe			
G&A as reported	2.81	1.84	2.62
One-time expenses	0.79	–	–
Number of full-time employees	13	11	5

General and administrative expenses increased in 2002 as a result of one-time charges and the first full year of expanded management and technical staff related to the pursuit of exploration and acquisition opportunities in western Canada.

General and administrative expenses are expected to be less than $2.00 per boe in 2003.

Interest Expense

Bow Valley recorded $0.6 million of interest expense in 2002 compared to $0.4 million in 2001. The Company maintained a higher average loan balance outstanding during 2002, resulting in a higher interest charge compared to the prior year. The higher outstanding loan balance is attributable to operating and repair costs related to the Kyle Field during the second quarter and debt incurred with the acquisition of Boundary Creek.

Foreign Exchange

Bow Valley's wholly-owned U.K. subsidiary has a bank facility that is denominated in U.S. dollars. Current accounts, including accounts payable, are typically denominated in British pounds sterling. As a result of the Canadian dollar weakening between the time the debt and payables were incurred and the time they were repaid or valued on the balance sheet date, the Company incurred a loss of $0.4 million in 2002.

Depletion, Depreciation and Amortization

In 2001, Bow Valley recorded additional depletion and depreciation of $24.2 million as a result of a ceiling test write-down. After removing this write-down in 2001, DD&A remained flat at an average of $12 per boe for 2002.

($000s, except as noted)	**2002**	2001	2000
Depletion and depreciation	**9,923**	7,689	1,984
Additional depletion, depreciation and amortization	**–**	24,198	–
Provision for site restoration	**777**	642	–
Total depletion, depreciation and site restoration	**10,700**	32,529	1,984
Depletion rate per boe – $/boe	**12.17**	46.25	8.15

Goodwill

The Company recorded goodwill of $8.5 million in 2002. The amount relates to the excess of the total cost of the Boundary Creek acquisition over the fair market value of the underlying assets and liabilities at the date of acquisition.

Generally accepted accounting principles now require that:

(a) Quoted market values of shares issued for acquisitions in business combinations are to be used to value the share portion of the acquisition.
(b) The excess of the total cost incurred for an acquisition over the fair value of the underlying assets and liabilities at date of acquisition is to be categorized as "goodwill".
(c) Goodwill is not to be amortized but is to be periodically assessed for impairment.

The Company has complied with the above requirements.

Given the relatively recent purchase of Boundary Creek and the fact that the current quoted market value of the Company's shares exceeds the price of the shares at the date of acquisition, no provision has been made for impairment of goodwill at December 31, 2002. As a further test to determine the reasonableness of goodwill, if goodwill was added to the cost of the Canadian properties (the previous practice) and the ceiling test applied, there would have been no ceiling test write-down at year-end. Goodwill could become impaired in the future and in such event, a write-down could occur.

Taxes

Tax Expense and Recovery ($000s)	2002	2001
Current		
Canada		
Large Corporations Tax	23	–
Part XII.6 tax	152	–
Total Canada	175	–
U.K.	–	11
Total current tax expense	175	11
Future tax recovery – Canada	(1,612)	–
Net tax	(1,437)	11

Taxes Pools

January 1, 2003	Amount ($ million)	Rate of claim (%)
Canada		
Non-capital losses	7.4	100
Canadian exploration expenses	1.4	100
Canadian development expenses	3.6	30
Canadian oil and gas property expenses	6.2	10
Undepreciated capital costs	3.7	20-100
Foreign exploration and development expenses	2.7	10
Other	1.0	7-20
Total Canadian tax pools	26.0	
U.K.		
Loss carryforwards	18.0	100
Mineral extraction allowances	19.2	25
Capital allowances (plant and machinery)	4.0	25
Total U.K. tax pools	41.2	

Current tax expense

Bow Valley became subject to the federal Large Corporations Tax during 2002. The Company was also liable for the Part XII.6 tax which relates to the tax on unspent flow-through funds after January of the second year following the issue of flow-through shares. The Company has subsequently incurred all of its flow-through expenditures and obligations relating to the 2001 flow-through share financings.

The Company does not expect to be taxable for corporate income tax purposes in 2003 in either Canada or the U.K. except for the Large Corporations Tax and the Part XII.6 tax in Canada.

Future income taxes

Bow Valley recorded a future tax benefit of $1.6 million in 2002 related to losses and unclaimed costs for tax purposes that will more than likely be realized as a result of the successful 2002 Canadian drilling program. An additional future tax benefit of $2.4 million was recorded with the acquisition of Boundary Creek.

Bow Valley recorded a full valuation allowance relating to losses and unclaimed costs for tax purposes in the U.K.

Capital Expenditures

In Canada, Bow Valley spent $11.8 million on exploration and development for the year. The Company invested $7.8 million on drilling and facilities, $3.0 million on land and seismic, and $0.9 million on other capital expenses during 2002.

Bow Valley also acquired all of the shares of Boundary Creek on August 29, 2002 for a total cost of $27.1 million, which includes the cash paid and shares issued as well as the assumption of Boundary Creek's debt. The Company also invested $0.9 million in the U.K. during the final quarter of 2002 and $12.1 million for the year.

Capital Expenditures

($000s)	2002	2001	2000
Canada			
Land	1,369	442	–
Seismic	1,698	11	–
Drilling	6,355	145	–
Facilities	1,449	–	–
Other	954	434	–
	11,825	1,032	–
Boundary Creek acquisition	27,120	–	–
Total Canada	38,945	1,032	–
U.K.			
Acquisition – Kyle additional interest	2,756	–	–
Development			
Kyle	4,568	9,168	11,745
Chestnut	591	(52)	880
Other	981	1,381	905
Exploration			
West Compton	1,520	430	151
Other	1,661	660	200
Total U.K.	12,077	11,587	13,881
Total capital expenditures	51,022	12,619	13,881
Dispositions – U.K.	–	(3,292)	–

Liquidity and Capital Resources

The capitalization of the Company at December 31, 2002 consisted primarily of 61.8 million common shares and combined Canadian and U.K. bank facilities of $20 million. The total debt, net of working capital at year-end, was $4.8 million at year-end, representing 0.56 times fourth-quarter 2002 cash flow.

Bow Valley expects funds generated from operations, together with available funds under the Company's existing bank credit facilities, will be sufficient to finance current operations and planned capital expenditures for 2003.

Bow Valley issued 6.2 million common shares on August 29, 2002 as partial consideration for the Boundary Creek acquisition. The Company also issued 6.1 million common shares on the conversion of 6.1 million subscription receipts for gross proceeds of $8.8 million. In December 2002, Bow Valley issued 2.4 million flow-through shares for gross proceeds of $5.2 million. The Company incurred $0.9 million of costs related to the renouncement of tax pools prior to year-end.

These funds were used to acquire Boundary Creek, enhance the Company's 2002 capital expenditure program and accelerate the planned 2003 program.

Outlook

In 2003, Bow Valley will continue to focus on building its natural gas-weighted production and reserve base in western Canada to achieve near to medium-term growth production and reserve targets. At the same time, the Company will concentrate on pursuing its oil-weighted exploration and development agenda in the U.K North Sea for medium to long-term growth.

The Company's forecast natural gas sales for 2003 are expected to average between 11.5 mmcf/d and 12.5 mmcf /d, with approximately 4.0 mmcf/d being produced in the U.K. and the remainder in western Canada. Bow Valley expects Canadian natural gas prices will continue to be robust throughout the year, reflecting lower North American gas storage levels compared to 2002 and tight supply.

In 2003, oil sales are expected to average between 1,200 bbls/d and 1,450 bbls/d, with the majority of the production being contributed from U.K. operations. The Company anticipates continued volatility in crude oil prices based on ongoing tensions in the Middle East, OPEC's ability to adhere to production quotas and world economic demand.

Bow Valley has established a 2003 capital spending program of $23 million, including $15 million in Canada and $8 million in the U.K. The Company expects to fund this 2003 capital program primarily from cash flow and partially from existing credit facilities and disposition of undeveloped land onshore U.K. The table on page 38 provides details of the anticipated capital expenditures.

2003 Capital Investment ($000s)	Exploration	Development	Total
Western Canada	13,000	2,000	15,000
U.K. – North Sea	7,485	515	8,000
Total	20,485	2,515	23,000

Bow Valley's results are affected by external market factors, such as fluctuation in the prices of crude oil and natural gas, as well as movements in foreign exchange rates. The Company's capital program is weighted to exploration drilling and, consequently, results and timing of success can be unpredictable. The following table outlines sensitivities of the Company's cash flow and net earnings to changes in commodity prices, U.S./Canadian dollar exchange rates and average production:

	Cash Flow		Net Earnings	
Sensitivity to 2003 Cash Flow and Net Earnings	$000s	$/share	$000s	$/share
US$1.00 per barrel increase in the price of WTI	726	0.012	472	0.008
US$0.25 per mmbtu increase in natural gas price	1,118	0.018	727	0.012
US$0.01 decrease in the value of the Canadian dollar	40	0.001	26	0.000
100 bopd increase in oil production	602	0.010	391	0.006
1 mmcf/d increase in natural gas production	967	0.015	629	0.010

Business Risks

All companies in the oil and natural gas industry are exposed to a number of business risks, some of which are beyond their control. These risks can be categorized as operational, financial and regulatory.

Operational risks include finding oil and natural gas reserves on an economic basis; production risk once reserves are found and placed onstream; commodity and marketing risk; and the risk that employees and contract services can be hired and retained on a cost-effective basis. Bow Valley's reserve estimates and, consequently, its production and cash flow levels may vary due to the inherent uncertainties in developing such estimates. A significant portion of the Company's reserves are classified as probable reserves. Ultimate production from such reserves is dependent upon successful development of such projects on an economic basis. Bow Valley cannot provide assurances that it will be able to explore for and develop commercial quantities of oil and natural gas.

The operational risks can be mitigated by employing a team of highly qualified staff, providing a compensation system that rewards above-average performance, developing and maintaining strong long-term relationships with contract service providers and joint venturing with high quality companies that assume operatorship. The Company maintains an insurance program consistent with industry practice to protect against destruction of assets, well blowouts, pollution and other business interruptions. Bow Valley maintains a geologically diverse, but geographically concentrated prospect inventory in Canada and the U.K. and the risks associated with the Company's high impact exploration program are offset by the lower-risk development agenda in the North Sea. Bow Valley also uses proven technology where appropriate to minimize the cost of finding and developing oil and natural gas reserves.

Financial risks include exposure to fluctuations in interest rates, the U.S. dollar and British pound sterling exchange rate, commodity prices and also access to debt or equity markets. Bow Valley cannot control these factors; however, it may hedge commodity prices and/or exchange rates to mitigate the impact of their volatility on the Company's operations. Bow Valley is dependent on the financial markets, particularly for its North Sea operations where substantial capital is required prior to bringing production onstream and generating cash flow. Bow Valley maintains a conservative approach to its finances and a flexible capital expenditure program. The Company has the option to sell properties, farm-out or reduce its interests should liquidity sources such as cash flow, debt or equity tighten unexpectedly.

Bow Valley is also subject to regulatory risks, which are common to the industry. The Company takes a proactive approach with respect to the environment and safety as described on the page 42. An operational emergency response plan is in place and the Company is in compliance with current environmental legislation.

Net Asset Value (unaudited)

As at December 31, 2002

(Cdn$ millions, except as noted)		Net present value[1] discounted at	
	8%	10%	12%
Reserves[2]			
Proved producing	40.05	39.06	38.17
Proved non-producing	3.35	2.86	2.43
Unrisked probable	83.91	73.98	65.40
Total proved + probable	**127.31**	**115.89**	**105.99**
Total established[3]	**85.36**	**78.91**	**73.30**
Undeveloped land[4]	5.08	5.08	5.08
Seismic	4.71	4.71	4.71
Debt and working capital	(4.85)	(4.85)	(4.85)
Other[5]	3.05	2.95	2.85
Estimated net asset value			
Established	**93.35**	**86.80**	**81.09**
NAV per share – basic	1.51	1.40	1.31
NAV per share – diluted	1.50	1.40	1.31
Proved + unrisked probable	**135.30**	**123.78**	**113.78**
NAV per share – basic	2.19	2.00	1.84
NAV per share – diluted	2.15	1.97	1.82

(1) Before income tax.

(2) Net present values based on APA and RSC forecast (escalated) product pricing and costs.

(3) Proved plus 50 percent of the probable reserves and net present values.

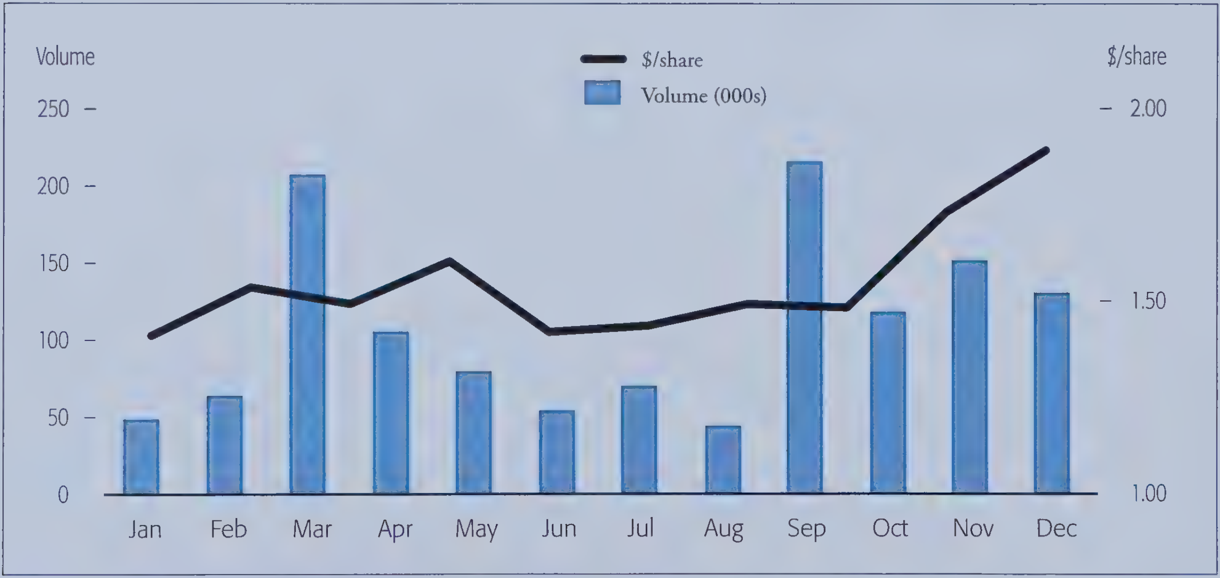
(4) Undeveloped land value assumptions based on $75/acre in Canada and a combination of fair market value where available, or cost for the U.K.

(5) Management estimate of the future discounted cash flow stream from the Balal contract.

Common Share Trading (TSX – BVX)

Year ended December 31	2002	2001	2000
Trading volume (000s)	27,075	16,145	9,890
% of average number of shares outstanding	53%	41%	29%
Daily average shares	107,016	64,839	39,719
Trading value ($ millions)	41.3	22.1	7.1
Share price ($/share)			
High	2.08	1.85	1.22
Low	1.19	0.81	0.31
Weighted average	1.95	1.37	0.72
Market capitalization			
Shares outstanding (000s)	61,844	45,450	38,269
Year-end share price ($/share)	1.95	1.39	0.90
Total ($ millions)	120.6	63.2	34.4

2002 Monthly Stock Trading Summary



Selected Quarterly Information

	2002				2001			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Production								
Oil and ngls (bbls/d)								
Canada	335	64	–	–	–	–	–	–
U.K.	1,518	2,400	132	1,370	1,416	2,138	1,964	156
Total	1,853	2,464	132	1,370	1,416	2,138	1,964	156
Natural gas (mmcf/d)								
Canada	12.7	1.7	–	–	–	–	–	–
U.K.	3.2	2.1	0.1	2.8	3.6	3.6	4.0	–
Total	15.9	3.8	0.1	2.8	3.6	3.6	4.0	–
Barrels of oil equivalent (boe/d)								
Canada	2,455	364	–	–	–	–	–	–
U.K.	2,040	2,762	142	1,837	2,019	2,736	2,631	156
Total	4,495	3,126	142	1,837	2,019	2,736	2,631	156
Financial								
($000s, except as noted)								
Petroleum and natural gas revenue	15,027	11,082	562	4,934	5,660	8,837	9,415	453
Royalties (net of ARTC)	(1,416)	(249)	–	–	–	–	–	–
Cash flow	8,675	6,270	(3,943)	2,611	2,644	6,722	7,165	114
Net earnings (loss)	4,676	3,113	(3,959)	614	(24,718)	4,132	4,587	66
Common shares outstanding (000s)	61,844	59,285	46,917	46,613	45,450	41,586	38,269	38,269
Per share data ($/share)								
Cash flow								
Basic	0.14	0.12	(0.08)	0.06	0.06	0.17	0.19	–
Diluted	0.14	0.12	(0.08)	0.06	0.06	0.16	0.19	–
Earnings								
Basic	0.07	0.06	(0.09)	0.01	(0.57)	0.11	0.12	–
Diluted	0.07	0.06	(0.09)	0.01	(0.57)	0.10	0.12	–

Health, Safety and Environment

Marina Wenger, Secretary
Louise Sakamoto, Executive Assistant
Bill Kurucz, Senior Accounting Consultant

Bow Valley's goal is to implement and maintain high standards of health, safety and environmental performance in our operations. During the past year, we undertook active operations both in western Canada and the U.K. onshore. Our health, safety and environmental programs and policies are relatively new and continue to evolve, and staff are committed to their implementation. The Company currently operates and will continue to do so in a manner designed to ensure the health and safety of its employees, contractors and the public, and minimize adverse effects on the environment. We are committed to:

- Providing practical health, safety and environmental policies and programs for all employees and contractors;
- Preparing emergency response procedures that allow personnel to respond promptly and effectively to emergencies;
- Establishing training programs designed to ensure employees receive appropriate training relative to their job functions;
- Considering good safety performance in the process of selecting contractors, suppliers and other services;
- Establishing monitoring procedures designed to ensure our operations are conducted in compliance with applicable laws and Company standards; and
- Establishing reporting and investigation procedures for all injuries, serious incidents and environmental concerns.

Bow Valley assumed the role of active operator during 2002 with the commencement of our drilling program in western Canada and onshore U.K. and the acquisition of Boundary Creek. We set targets of no accidents and minimal impact to the environment, and these goals were achieved over the course of the year. The Company joined the Canadian Association of Petroleum Producers' (CAPP) Environment, Health and Safety Stewardship initiative during 2002. As such, we are committed to the continuous improvement of our environment, health and safety performance. We are continuing to implement and plan initiatives to enhance our performance such as third-party rig and field facility inspections and safety training assessments and upgrading programs for all field employees and contractors.

The broadening scope of our operations has necessitated a greater focus on the impact of our operations on the environment. We recognize the diversity of opinion that now exists among stakeholders, in particular those we connect with in rural areas, regarding the environmental impact of oil and natural gas activities. Bow Valley is committed to responding to stakeholder concerns. While we may not always share the same opinion, we recognize that positive, two-way communications and a willingness to consider project design alternatives that can play an important role in providing an effective response and in reducing our impact on the environment.

Management's Report

The accompanying consolidated financial statements of Bow Valley Energy Ltd. and all other financial and operating information contained in this Annual Report are the responsibility of management. The consolidated financial statements have been prepared in accordance with accounting policies detailed in the notes to the consolidated financial statements and in accordance with generally accepted accounting principles in Canada.

The Company's systems of internal control have been designed and maintained to provide reasonable assurance that assets are properly safeguarded and that the financial records are sufficiently well maintained to provide relevant, timely and reliable information to management.

External auditors, appointed by the shareholders, have independently examined the consolidated financial statements. They have performed such tests as they deemed necessary to enable them to express an opinion on these consolidated financial statements.

An Audit Committee of the Board of Directors has reviewed these consolidated financial statements with management and the external auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

Robert G. Moffat
President and Chief Executive Officer

C. Dean Setoguchi, C.A.
Vice President, Finance

Auditors' Report

To the Shareholders of Bow Valley Energy Ltd.

We have audited the consolidated balance sheets of Bow Valley Energy Ltd. as at December 31, 2002 and 2001 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and the cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP
Chartered Accountants
Calgary, Alberta
March 7, 2003

Consolidated Balance Sheet

		December 31, 2002		December 31, 2001
Assets				
Current assets				
Cash and short-term investments	$	3,688,922	$	8,126,720
Accounts receivable		10,242,771		4,419,947
		13,931,693		12,546,667
Property, plant and equipment, net (note 4)		56,246,916		24,385,221
Other assets (note 5)		1,338,861		1,419,717
Goodwill (note 3)		8,512,450		–
	$	80,029,920	$	38,351,605
Liabilities				
Current liabilities				
Accounts payable	$	12,471,432	$	2,896,081
Bank indebtedness (note 6)		6,310,400		–
		18,781,832		2,896,081
Long-term debt (note 7)		–		500,000
Future site restoration (note 8)		1,461,622		642,015
Future income taxes (note 9)		357,677		–
Shareholders' equity				
Share capital (note 10)		78,960,714		58,251,076
Warrants (note 10)		–		38,209
Deficit		(19,531,925)		(23,975,776)
		59,428,789		34,313,509
	$	80,029,920	$	38,351,605

Approved by the Board

Daryl K. Seaman
Director

George Y. Tooley
Director

Consolidated Statement of Operations and Deficit

	Year Ended December 31, 2002	Year Ended December 31, 2001
Revenue		
Operating	$ 31,604,935	$ 24,365,473
Interest and other	157,299	120,333
Royalties, net of royalty tax credit	(1,664,847)	–
	30,097,387	24,485,806
Expenses		
Operating	12,812,187	6,116,645
General and administrative	2,472,015	1,296,373
Interest	604,950	441,112
Amortization of deferred financing costs	80,855	49,242
Depletion, depreciation and amortization	9,923,149	7,688,984
Additional depletion, depreciation and amortization	–	24,198,000
Foreign exchange loss (gain)	420,369	(24,255)
Provision for site restoration	777,177	642,015
	27,090,702	40,408,116
Income (loss) before income taxes	3,006,685	(15,922,310)
Taxes (note 9)		
Current	174,834	10,732
Future tax recovery	(1,612,000)	–
	(1,437,166)	10,732
Net income (loss)	4,443,851	(15,933,042)
Deficit		
Beginning of the year	(23,975,776)	(8,042,734)
End of the year	$ (19,531,925)	$ (23,975,776)
Earnings (loss) per share (note 11)		
Basic	$ 0.09	$ (0.40)
Diluted	$ 0.09	$ (0.40)

Consolidated Statement of Cash Flows

	Year Ended December 31, 2002	Year Ended December 31, 2001
Operating activities		
Net income (loss) for the year	$ 4,443,851	$ (15,933,042)
Non-cash items		
Depletion, depreciation and amortization	9,923,149	7,688,984
Additional depletion, depreciation and amortization	–	24,198,000
Amortization of deferred financing costs	80,855	49,242
Provision for site restoration	777,177	642,015
Future tax recovery	(1,612,000)	–
Cash flow from operations	13,613,032	16,645,199
Net change in non-cash working capital	(8,961,774)	(2,448,700)
	4,651,258	14,196,499
Investing activities		
Acquisition of property, plant and equipment	(23,901,628)	(12,618,992)
Disposition of property, plant and equipment	–	3,291,737
Abandonment costs	(2,267)	–
Acquisition of Boundary Creek Resources Ltd.	(10,000,476)	–
Net change in non-cash working capital	7,111,231	(272,554)
	(26,793,140)	(9,599,809)
Financing activities		
Issuance of Class A common shares		
Private placement	14,004,275	7,011,425
Exercise of options	446,776	996,448
Exercise of warrants	500,000	1,000,000
Bank indebtedness	4,113,911	(7,497,326)
Debenture	(500,000)	(1,000,000)
Share issue costs	(860,878)	(315,004)
	17,704,084	195,543
Increase (decrease) in cash during year	(4,437,798)	4,792,233
Cash and short-term investments at beginning of year	8,126,720	3,334,487
Cash and short-term investments at end of year	$ 3,688,922	$ 8,126,720
Cash flow supplemental information		
Cash paid		
Current taxes paid	$ –	$ 10,732
Interest paid	$ 604,950	$ 962,552
Cash flow per share (note 11)		
Basic	$ 0.27	$ 0.42
Diluted	$ 0.27	$ 0.40
Cash and non-cash transactions (note 2)		

Notes to Consolidated Financial Statements

For the years ended December 31, 2002 and 2001

1. Significant Accounting Policies

The consolidated financial statements of Bow Valley Energy Ltd. (the "Company") have been prepared in accordance with accounting principles generally accepted in Canada.

Management estimates and measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions regarding certain assets, liabilities, revenues and expenses. Such estimates include those related to unsettled transactions and events as of the date of the financial statements. Others include estimates related to depletion, depreciation, amortization, impairments and the ceiling test. Accordingly, actual results may differ from estimated amounts.

Significant accounting policies are summarized as follows:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company, all of its wholly-owned subsidiaries, and a 50 percent owned company (Croft (U.K.) Limited) which is consolidated using the proportionate consolidation method of accounting.

(b) Property, plant and equipment

The Company follows the full cost method of accounting, whereby all costs associated with the exploration for and development of oil and natural gas reserves are capitalized and accumulated in country-by-country cost centres. Such amounts include land acquisition costs, geological and geophysical expenditures, carrying costs of non-producing properties, costs of drilling productive and non-productive wells and plant and equipment costs.

Gains or losses on sales of properties are recognized only when crediting the proceeds to capitalized costs would result in a change of 20 percent or more in the depletion and depreciation rate.

Depletion, depreciation and amortization of properties and equipment is provided using the unit-of-production method based on the Company's share of proved oil and natural gas reserves before royalties, as determined by independent engineers for each country. Production and reserves of natural gas are converted to barrels of oil equivalent using an energy equivalent basis of six thousand cubic feet of natural gas to one barrel of oil. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proved reserves as estimated by independent engineers and excludes the cost of unproved properties. The unproved properties are assessed periodically to ascertain whether impairment has occurred. If an unproved property is considered to be impaired, the amount associated with the impairment is added to costs subject to depletion. Certain costs relating to North Sea properties, from which there has not been commercial production, are not subject to depletion until commercial production commences.

Depreciation of other capital assets such as leasehold improvements, office furniture, computer and other equipment is provided based on rates ranging from 20 to 100 percent on a declining balance basis.

Estimated future site restoration and abandonment costs of petroleum and natural gas properties are provided for using the unit-of-production method. Estimates are made by management based on costs and regulation in effect at year-end.

The Company applies a ceiling test as a test of impairment of its capitalized costs relating to its petroleum and natural gas properties. The net capitalized cost of each cost centre is calculated as the net book value of the related assets less the accumulated provisions for future income taxes and future site restoration. Such costs are compared to the sum of future net revenues from proved properties and the cost of unproved properties, less future general and administration expenses, financing costs and income taxes. If such costs exceed future net revenues and cost of unproved properties, the excess is charged to income. Future net revenues are based on prices, costs and regulations prevailing at year-end.

(c) Goodwill

Goodwill, which represents the excess of purchase price over fair value of net assets received is not amortized but is assessed at least annually for impairment. To assess impairment, the fair value of the reporting unit is determined and compared to the book value of the reporting unit. If the fair value is less than the book value, then a second test is performed to determine the amount of the impairment. The amount of the impairment is determined by deducting the fair value of the reporting unit's assets and liabilities from the fair value of the reporting unit to determine the implied fair value of goodwill and comparing that amount to the book value of the reporting unit's goodwill. Any excess of the book value of goodwill over the implied fair value of goodwill is the impaired amount. Goodwill is not amortized, but is tested for impairment at least annually.

(d) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax basis, using enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs.

Estimated future tax benefits related to losses and unclaimed costs for tax purposes are recognized as assets and in income, once it appears more likely than not they will ultimately be realized.

(e) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by Canadian flow-through arrangements are renounced to investors in accordance with income tax legislation. The Company incurred \$7.0 million of flow-through related expenditures in 2002 (2001 – \$0.15 million) and is obligated to incur and renounce an additional \$4.3 million of exploration and development expenditures in 2003. Share capital will be decreased and future income tax increased to reflect the tax effect of flow-through share renouncements when the qualifying expenditures have been incurred.

(f) Stock option plan

Bow Valley has a stock-based compensation plan that allows employees and directors to purchase common shares of the Company. Option exercise prices approximate the market price for the common shares on the date the options are issued. Options granted under the plan vest over three years and expire five years after the grant date. Compensation costs are not recognized in the financial statements for share options granted.

(g) Financial instruments

The Company enters into contracts to hedge crude oil and natural gas prices on a portion of its production to protect its future earnings and cash flows from the potential adverse effect of reduced crude oil and natural gas prices and not for speculative purposes. The contracts are entered into with commodities trading institutions and may include costless collars, put options or fixed-price contracts which are designated as a hedge. The Company only enters into these contracts if there is a strong correlation between the commodity being hedged and the underlying derivative financial instrument. Gains or losses on the contracts are included in revenues at the time of the sale of the related hedged production.

(h) Cash and cash equivalents

Cash and cash equivalents include short-term investments with a maturity of three months or less when purchased.

(i) Joint ventures

Substantially all of the Company's exploration and development activities relating to oil and natural gas activities are conducted jointly with others. The accounts reflect the Company's proportionate interest in such activities.

(j) Foreign currency translation

The Company uses the temporal method for translating its foreign accounts and integrated foreign subsidiaries to Canadian dollars. Under this method, all monetary asset and liability accounts are translated to Canadian dollars at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at the exchange rate in effect when the assets were acquired or obligations incurred.

Revenues and expenses are translated to Canadian dollars at the monthly average exchange rate. Provisions for depletion, depreciation, amortization and future site restoration are translated at the same rate as the related balance sheet items. Foreign exchange gains and losses are included in earnings for the period.

(k) Comparative amounts

Certain comparative figures have been reclassified to conform with the current year presentation.

2. Supplemental Selected Cash and Non-Cash Information

The following presents the changes in certain accounts from the beginning of the year to the end of the year:

2002	January 1, 2002	Boundary Creek (1)	Cash changes	Non-cash changes	December 31, 2002
Property, plant and equipment, net (note 4)	$ 24,385,221	$ 17,883,216	$ 23,901,628	$ (9,923,149)	$ 56,246,916
Bank indebtedness (note 6)	–	2,196,489	4,113,911	–	6,310,400
Future income taxes (note 9)	–	(768,866)	–		(768,866)
Future tax recovery		–	–	(1,612,000)	(1,612,000)
Share capital (note 10)		–	–	2,738,543	2,738,543
Total future income taxes					357,677
Share capital (note 10)	58,251,076	9,319,799	–	–	67,570,875
Private placement		–	8,844,275	–	8,844,275
Flow-through shares issued		–	5,160,000	(2,949,158)	2,210,842
Options exercised		–	446,776	–	446,776
Warrants exercised		–	500,000	38,209	538,209
Issue costs		–	(860,878)	210,615	(650,263)
Total share capital					$ 78,960,714

(1) Amounts relate to acquisition of Boundary Creek Resources Ltd. (note 3).

2001	January 1, 2001	Cash changes	Non-cash changes	December 31, 2001
Property, plant and equipment, net (note 4)	$ 47,988,067	$ 12,618,992	$ (31,886,984)	$ 28,720,075
Disposition of capital assets		(3,291,737)	(1,043,117)	(4,334,854)
Total property, plant and equipment				24,385,221
Bank indebtedness (note 6)	7,497,326	(7,497,326)	–	–
Share capital (note 10)	49,481,789	–	–	49,481,789
Private placement		774,625	–	774,625
Flow-through shares issued		6,236,800	(61,800)	6,175,000
Options exercised		996,448	–	996,448
Warrants exercised		1,000,000	76,418	1,076,418
Issue costs		(315,004)	61,800	(253,204)
Total share capital				$ 58,251,076

3. Acquisition of Boundary Creek Resources Ltd.

Effective August 29, 2002, the Company acquired all of the issued and outstanding common shares of Boundary Creek Resources Ltd. ("Boundary"), a public company involved in the exploration, development and production of natural gas and oil in northern and central Alberta. The consideration paid was 6,213,211 shares of the Company valued at $1.50 per share ($9.3 million) and $9.6 million in cash. The value of the acquisition was $19.3 million (including $0.37 million in transaction costs) plus the assumption of Boundary's debt. The transaction was accounted for using the purchase method. The accounts include the results of Boundary effective August 29, 2002.

The purchase price equation is as follows:

Cash paid		
Purchase price		
Cash	$	9,648,962
Other cash payments		370,241
Less cash acquired		(18,727)
Total	$	10,000,476
Cost of acquisition		
Shares issued	$	9,319,799
Cash		9,648,962
Transaction costs		370,241
Net debt		7,780,833
Total	$	27,119,835
Purchase allocation		
Petroleum and natural gas properties	$	17,883,216
Goodwill		8,512,450
Recognition of previously unrecorded tax benefit		2,415,000
Net future tax liability		(1,646,134)
Provision for site restoration		(44,697)
Total cost of acquisition	$	27,119,835
Cash		18,727
Working capital deficiency		(5,603,072)
Bank indebtedness		(2,196,488)
Total cost of shares acquired	$	19,339,002

4. Property, Plant and Equipment

December 31, 2002		Cost		Accumulated depletion, depreciation and amortization		Net book value
Oil and natural gas properties						
U.K.	$	72,060,003	$	43,013,807	$	29,046,196
Canada		30,448,666		3,668,159		26,780,507
France		992,481		783,248		209,233
		103,501,150		47,465,214		56,035,936
Other		546,191		335,211		210,980
Total	$	**104,047,341**	$	**47,800,425**	$	**56,246,916**

December 31, 2001		Cost		Accumulated depletion, depreciation and amortization		Net book value
Oil and natural gas properties						
U.K.	$	60,168,534	$	36,813,807	$	23,354,727
Canada		865,922		–		865,922
France		783,248		783,248		–
		61,817,704		37,597,055		24,220,649
Other		438,792		274,220		164,572
Total	**$**	**62,256,496**	**$**	**37,871,275**	**$**	**24,385,221**

At December 31, 2002, the net book value of U.K. oil and natural gas properties was $29.0 million (2001 – $23.4 million) of which $8.3 million (2001 – $7.9 million) consisted of unproved properties which were not depleted.

During 2002, the Company capitalized $0.79 million (2001 – $0.84 million) of overhead relating to exploration activities. The Company did not capitalize any interest in 2002 (2001 – $0.52 million).

The ceiling test evaluation for Canadian operations at December 31, 2002 was performed using year-end field prices of Cdn$46.66 per barrel of crude oil and Cdn$6.04 per thousand cubic feet of natural gas. The Company did not have any crude oil or natural gas reserves in Canada at the end of 2001. The prices used for the U.K. operations were US$28.73 (2001 – US$19.79) per barrel of crude oil and US$3.12 (2001 – US$2.45) per thousand cubic feet of natural gas. The Company recorded additional depletion of $24.2 million in 2001 relating to a ceiling test write-down.

5. Other Assets

The Company's service contract with the National Iranian Oil Company to develop the Balal oilfield was ratified by the Supreme Economic Council of Iran at the end of January 1999. The Company was successful in securing Elf Petroleum Iran as a joint venture partner and the service contract was executed on April 4, 1999. The Company's costs attributable to the project, amounting to $1.3 million at December 31, 2002 and 2001, have been classified as other assets on the consolidated balance sheet.

The Company expects to receive payment for the service contract over the next three years. The costs associated with this contract will be amortized accordingly.

Included in 2001 were costs attributable to issuing the debenture described in note 7. The debenture was fully repaid in 2002 and all remaining costs were expensed.

6. Bank Indebtedness

Effective for fiscal periods commencing January 1, 2002, the Company adopted the new recommendations regarding Balance Sheet Classification of Callable Debt Obligations and Debt Obligations Expected to be Refinanced. All borrowings where the lender has a right to demand repayment within 12 months (other than in the event of a default or breach of covenants) or where the lender has the right to refuse to roll-over the borrowings for a further lending period longer than 12 months are required to be classified as current liabilities.

In the U.K., the Company has a bank facility with an approved limit of US$9.29 million. The approved limit is subject to semi-annual review and the facility expires on December 31, 2004. At December 31, 2002, US$4.0 million (2001 – nil) was drawn on this facility. The bank facility is secured by a floating charge on all property, assets and rights of Bow Valley Petroleum (U.K.) Limited.

In Canada, the Company has a Cdn$6.0 million revolving credit facility. The facility is repayable on demand, bears interest at the bank's prime rate plus 0.25 percent per annum, and is secured by a $15.0 million demand debenture conveying a fixed and floating charge over all properties in Canada. The facility is subject to annual review on April 30 of each year.

7. Long-term Debt Debenture

The Company paid out the holder of the 8 percent debenture in the amount of $0.5 million (2001 – $1.0 million).

8. Future Site Restoration and Abandonment Costs

		2002		2001
Balance – beginning of year	$	642,015	$	1,043,117
Boundary Creek provision		44,697		–
Current year provision		777,177		642,015
Disposition of assets		–		(1,043,117)
Current year expenditures		(2,267)		–
Balance – end of year	$	1,461,622	$	642,015

As at December 31, 2002, the future site restoration and abandonment costs to be incurred over the remaining life of the proved reserves are estimated to be $5.0 million (2001 – $4.0 million).

9. Future Income Taxes

The provision for income taxes in the consolidated statement of operations and retained earnings (deficit) varies from the amount that would be computed by applying the expected tax rate to earnings before income taxes. The expected tax rates used were those in effect for the periods. The principal reasons for differences between such "expected" income tax expense and the amount actually recorded are as follows:

2002		Canada		U.K.		Total
Tax rate		42.12%		40.00%		
Expected income tax (recovery) expense	$	(245,814)	$	1,436,117	$	1,190,303
Increase (decrease) in income taxes resulting from:						
Capital tax		24,258		–		24,258
Flow-through part XII.6 tax		150,576		–		150,576
Federal resource allowance		(509,008)		–		(509,008)
Non-deductible Crown charges		636,974		–		636,974
Alberta Royalty Tax Credit		(170,352)		–		(170,352)
Other		91,569		(1,213,264)		(1,121,695)
Change in tax rate		(44,436)		(1,445,607)		(1,490,043)
Foreign exchange adjustment		–		(779,852)		(779,852)
Reversal of valuation allowance		(1,370,933)		–		(1,370,933)
Valuation allowance net of adjustments		–		2,002,606		2,002,606
Actual income tax (recovery) expense	$	(1,437,166)	$	–	$	(1,437,166)

2001		Canada		U.K.		Total
Tax rate		42.62%		30.00%		
Expected income tax (recovery) expense	$	(287,566)	$	(4,577,496)	$	(4,865,062)
Increase (decrease) in income taxes resulting from:						
Federal resource allowance		79,355		–		79,355
Other		–		10,732		10,732
Valuation allowance net of adjustments		208,211		4,577,496		4,785,707
Actual income tax expense (recovery)	$	–	$	10,732	$	10,732

Future Tax

Canada	2002	2001
Net book value of property, plant and equipment in excess of tax basis	$ (3,918,695)	$ 1,175,889
Future site restoration costs	50,474	–
Non-capital loss carryforward	3,110,974	2,450,506
Share issue costs	399,570	159,538
Future tax	(357,677)	3,785,933
Valuation allowance	–	(3,785,933)
Future tax liability	$ (357,677)	$ –
U.K.		
Tax basis in excess of net book value of property, plant and equipment	$ 4,840,000	$ 2,837,394
Future site restoration	537,277	642,000
Future tax asset	5,377,277	3,479,394
Valuation allowance	(5,377,277)	(3,479,394)
Future tax liabiltity	$ –	$ –

The approximate amounts of tax pools and losses available are as follows:

As at December 31	2002	2001
Canada	$ 26,001,000	$ 10,007,000
U.K.	41,153,000	32,813,000
Total	$ 67,154,000	$ 42,820,000

Tax Losses

At December 31, 2002, the Company had losses available to offset future income for tax purposes of $7.4 million. The losses expire in the years as noted:

Year	Amount
2003	$ 1,440,170
2004	1,315,100
2005	1,295,221
2006	583,647
2007	1,019,167
2008	88,792
2009	1,643,204
Total	**$ 7,385,301**

U.K.

The Company has provided a valuation allowance for the full amount of net future income tax assets in the U.K. As at December 31, 2002, the Company had approximately $19.2 million of losses available to offset future income for tax purposes. The losses have an indefinite life.

10. Share Capital

a) Authorized

Unlimited number of Class A, Class B and Class C common shares without nominal or par value.
Unlimited number of Class D, Class E and Class F preferred shares.

b) Issued

Class A common shares	Number	Amount
As at December 31, 2000	38,268,803	$ 49,481,789
Private placement	619,700	774,625
Private placement – flow-through	824,000	1,236,000
Options exercised	1,105,468	996,448
Flow-through	2,632,000	5,000,800
Warrants exercised	2,000,000	1,076,418
Issue costs	–	(315,004)
As at December 31, 2001	45,449,971	58,251,076
Private placement	6,099,500	8,844,275
Corporate acquisition (note 3)	6,213,211	9,319,799
Options exercised	681,066	446,776
Flow-through	2,400,000	5,160,000
Warrants exercised	1,000,000	538,209
Tax effect of flow-through shares and issue costs	–	(2,738,543)
Issue costs	–	(860,878)
As at December 31, 2002	**61,843,748**	**$ 78,960,714**

c) Stock options

	Number of options	Exercise prices	Weighted average exercise price
Outstanding at December 31, 2000	2,705,800	$ 0.38 – $ 2.00	$ 0.99
Exercised	(1,105,468)	$ 0.38 – $ 1.25	$ 0.90
Granted in 2001	2,654,000	$ 0.95 – $ 1.50	$ 1.41
Cancelled	(350,000)	$ 2.00	$ 2.00
Outstanding at December 31, 2001	3,904,332	$ 0.38 – $ 1.50	$ 1.21
Exercised	(681,066)	$ 0.38 – $ 1.25	$ 0.66
Granted in 2002	1,032,500	$ 1.30 – $ 1.61	$ 1.46
Cancelled	(776,400)	$ 0.38 – $ 2.00	$ 1.19
Outstanding at December 31, 2002	**3,479,366**	**$ 0.38 – $ 1.61**	**$ 1.40**

The following tables summarize information about stock options exercisable and outstanding at December 31, 2002:

Options outstanding

Range of exercise price	Actual number outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)
$ 0.38 – $ 0.49	22,100	$ 0.38	2.00
$ 0.50 – $ 0.99	224,799	$ 0.59	2.31
$ 1.00 – $ 1.49	1,132,367	$ 1.37	4.34
$ 1.50 – $ 1.99	2,100,100	$ 1.51	3.80
	3,479,366	**$ 1.40**	**3.87**

Exercisable options

Range of exercise price	Actual number outstanding	Weighted average exercise price
$ 0.38 – $ 0.49	22,100	$ 0.38
$ 0.50 – $ 0.99	142,599	$ 0.62
$ 1.00 – $ 1.49	123,167	$ 1.12
$ 1.50 – $ 1.99	652,133	$ 1.50
	939,999	**$ 1.29**

d) Warrants

Warrants to acquire Class A common shares for $0.50 per share were fully exercised at December 31, 2002 (2001 – 1 million).

11. Per Share Information

a) Basic per share information was calculated on the basis of the weighted average common shares outstanding during the year of 51,040,371 (2001 – 39,786,754).

b) Diluted per share information was calculated using 51,317,329 (2001 – 41,123,944). The amounts represent the sum of the weighted average shares outstanding plus an increase of 276,958 (2001 – 1,377,190) to account for the dilutive effects of the Company's outstanding stock options and warrants.

c) Effective January 1, 2002, Canadian generally accepted accounting principles require disclosure of the impact on net income of using the fair value method of accounting for stock options issued on or after January 1, 2002. If the fair value method had been used, the Company's net earnings and net earnings per share would approximate the following pro-forma amounts:

December 31, 2002		
Compensation costs	$	89,923
Net earnings		
As reported	$	4,443,851
Pro-forma	$	4,353,928
Net earnings per common share		
Basic and diluted		
As reported	$	0.09
Pro-forma	$	0.09

The fair value of options was estimated using the Black-Scholes option-pricing model with assumptions as follows:

Risk-free interest rate (%)	3.83
Expected lives (years)	3.00
Expected volatility (%)	49.98
Dividend per share	–

12. Geographic Segment Information

December 31, 2002	Canada	U.K.	Consolidated
Operating revenue	$ 7,973,707	$ 23,631,228	$ 31,604,935
Interest and other income	98,141	59,158	157,299
Royalties, net of royalty tax credit	(1,623,652)	(41,195)	(1,664,847)
Operating expenses	(998,935)	(11,813,252)	(12,812,187)
General and administrative expense	(2,058,322)	(413,693)	(2,472,015)
Foreign exchange loss	(36,198)	(384,171)	(420,369)
Interest expense	(58,632)	(546,318)	(604,950)
Deferred financing charges	(80,855)	–	(80,855)
Depletion, depreciation and amortization	(3,722,862)	(6,200,287)	(9,923,149)
Provision for site restoration	(76,000)	(701,177)	(777,177)
Taxes – current	(174,834)	–	(174,834)
– future tax recovery	1,612,000	–	1,612,000
Net income for the year	$ 853,558	$ 3,590,293	$ 4,443,851
Goodwill	8,512,450	–	8,512,450
Identifiable assets	**$ 50,768,061**	**$ 29,261,859**	**$ 80,029,920**

December 31, 2001		Canada		U.K.		Consolidated
Operating revenue	$	–	$	24,365,473	$	24,365,473
Interest and other income		80,868		39,465		120,333
Operating expenses		–		(6,116,645)		(6,116,645)
General and administrative expense		(599,507)		(696,866)		(1,296,373)
Interest expense		(99,872)		(341,240)		(441,112)
Foreign exchange gain (loss)		43,010		(18,755)		24,255
Deferred financing charges		(49,242)		–		(49,242)
Depletion, depreciation and amortization		(49,978)		(7,639,006)		(7,688,984)
Additional depletion, depreciation and amortization		–		(24,198,000)		(24,198,000)
Provision for site restoration		–		(642,015)		(642,015)
Taxes – current		–		(10,732)		(10,732)
Net (loss) for the year	$	(674,721)	$	(15,258,321)	$	(15,933,042)
Identifiable assets	$	9,257,021	$	29,094,584	$	38,351,605

13. Financial Instruments

The Company recorded a loss of $449,804 from hedging during 2002. At December 31, 2002, the Company had the following financial hedging positions outstanding:

	Volume (bbls/d)	Price (US$/bbl)	Unrealized gain/(loss) (US$)
Crude oil			
Crude put options (floor)			
Quarter 1 – 2003	193	23.00	(42,306)
Quarter 2 – 2003	193	23.00	(42,306)
	Volume (GJ/d)	**Price ($/GJ)**	**Unrealized gain/(loss) (Cdn$)**
Natural gas swap			
January-October 2003	2,000	5.76	(60,800)

14. Commitments

As at December 31, 2002, the Company is committed to long-term leases for offices of:

Year	Amount
2003	$ 253,783
2004	177,783
2005	177,783
2006	177,783
2007	118,522
Total	$ 905,654

Board of Directors

Daryl K. Seaman, Chairman of the Board

Mr. Seaman is Chairman of the Board and a founder of Bow Valley Energy Ltd. From 1992 to present, he has been Chairman and President of Dox Investments Inc., a private holding company. From 1949 through 1992, he was Chairman, Chief Executive Officer and Director of Bow Valley Industries Ltd. and its predecessor companies which he co-founded. Other directorships include Canadian Chemical Reclaiming Ltd., Far West Mining Ltd. and Western Lakota Energy Services Ltd. Mr. Seaman is an Officer of the Order of Canada.

Robert G. Moffat, President, Chief Executive Officer, Director

Mr. Moffat, P.Geol., is President, Chief Executive Officer and a Director of Bow Valley Energy Ltd. Mr. Moffat graduated from Queen's University, Kingston, Ontario, Canada in 1977. From 1995 to 2001, he was President, Chief Executive Officer and Director of Courage Energy Inc. From 1992 through 1995, he was President of Springsyde Resources Ltd., a company he founded and which later became Courage Energy Inc. through an amalgamation and name change in 1995. Prior thereto, he was Vice President and Director of Highridge Exploration Ltd. Mr. Moffat has been instrumental in directing corporate growth through oil and natural gas exploration in Canada, the United States and internationally. Mr. Moffat was recently a Governor of the Canadian Association of Petroleum Producers (CAPP) and was the Chairman of the Public Affairs Executive Policy group.

C. (Kent) Jespersen, Director

Mr. Jespersen is a Director of Bow Valley Energy Ltd. Mr. Jespersen is Chairman and Chief Executive Officer of La Jolla Resources International Ltd. From 1976 to 1998, he served in various senior management capacities with the NOVA group of companies, including President of NOVA Gas International Ltd. and Senior Vice President of NOVA Corporation. Mr. Jespersen serves on the boards of a number of Canadian corporations.

Henry R. Lawrie, Director

Mr. Lawrie is a Director of Bow Valley Energy Ltd. Mr. Lawrie joined Price Waterhouse in Calgary in 1962, was admitted to partnership in 1971, transferred to Toronto in 1972, transferred to Calgary in 1974, transferred to Dallas in 1979 under the Partners' International Program and transferred to Calgary in 1981. He served as Co-chairman, Price Waterhouse Canada Oil and Gas Specialty; Managing Partner, Price Waterhouse, Calgary; Representative, Price Waterhouse World Council of Partners; Representative, Price Waterhouse World Firm Advisory Group; and was twice elected to the Price Waterhouse Canada Policy Board. He retired in June 1997. In addition, Mr. Lawrie was Chief Accountant of the Alberta Securities Commission from 1997 through 2001, Chair of the Oil and Gas Securities Taskforce and Advisor to the Commission.

Kenneth R. Stiles, Director

Mr. Stiles is a Director of Bow Valley Energy Ltd. Presently, Mr. Stiles is a Director of Echo Glen Consulting Ltd. and several other private companies. From 1992 through 2001, he was Executive Vice President and Secretary of Dox Investments Inc., a private holding company. From 1994 through 2001, he was a Director of Courage Energy Inc., a public oil and gas company, and from 2000 to 2001, served as Chairman of that company. From 1996 through 1999, Mr. Stiles was a Director of We X.L. Holdings Corporation, a public energy management company, as well as a Director of Highridge Exploration Ltd., a public oil and gas company.

George Y. Tooley, Director

Mr. Tooley is a Director of Bow Valley Energy Ltd. Currently, Mr. Tooley is an Officer and Director of Fairstar Explorations Inc., a TSX listed junior mining company. As one of the principals of the Petrovest Group, Mr. Tooley has been actively involved in the financing and administration of mineral and petroleum projects for the last 13 years. From 1992 through 2001, he was a Director of Courage Energy Inc., a public oil and gas company.

Five Year Summary

	2002	2001	2000	1999	1998
Financial					
($000s except as indicated)					
Operating revenue	**31,605**	24,365	10,797	1,715	1,149
Cash flow	**13,613**	16,645	4,997	(341)	(59)
Basic per share ($/share)	**0.27**	0.42	0.14	(0.02)	–
Diluted per share ($/share)	**0.27**	0.40	0.14	(0.02)	–
Earnings (loss)	**4,444**	(15,933)	2,688	(898)	(4,541)
Basic per share ($/share)	**0.09**	(0.40)	0.08	(0.04)	(0.18)
Diluted per share ($/share)	**0.09**	(0.40)	0.08	(0.04)	(0.18)
Capital expenditures	**51,022**	12,619	13,881	6,325	19,458
Total assets	**80,030**	38,352	53,222	39,323	37,749
Working capital (deficit)	**(4,850)**	9,651	2,138	(1,595)	(987)
Long-term debt	**–**	(500)	(8,997)	–	–
Total net working capital (deficit)	**(4,850)**	9,151	(6,859)	(1,595)	(987)
Shares (000s)					
Basic	**61,844**	45,450	38,269	29,936	24,946
Outstanding options and warrants	**3,479**	4,904	5,706	2,161	1,947
Weighted average	**51,040**	39,787	34,050	27,441	25,033
Operating					
Production					
Crude oil and ngls (bbls/d)					
U.K.	**1,358**	1,472	667	165	180
Canada	**101**	–	–	–	–
Total	**1,459**	1,472	667	165	180
Natural gas (mmcf/d)					
U.K.	**2.0**	2.7	–	–	–
Canada	**3.7**	–	–	–	–
Total	**5.7**	2.7	–	–	–
Oil equivalent (boe/d)					
U.K.	**1,698**	1,927	667	165	180
Canada	**711**	–	–	–	–
Total	**2,409**	1,927	667	165	180
Reserves					
Crude oil and ngls (mstb)					
Proved					
U.K.	**1,980**	2,180	3,812	2,962	2,982
Canada	**250**	–	–	–	–
Probable					
U.K.	**12,600**	10,990	12,885	11,702	11,520
Canada	**70**	–	–	–	–
Natural gas (bcf)					
Proved					
U.K.	**9.3**	9.9	4.4	1.1	1.2
Canada	**9.7**	–	–	–	–
Probable					
U.K.	**20.3**	16.1	19.2	12.6	12.6
Canada	**2.5**	–	–	–	–
Undeveloped land (net acres – 000s)					
U.K.	**104**	75	80	54	54
Canada	**38**	10	–	–	–
France	**282**	486	485	485	485
Total	**425**	571	565	539	539

Corporate Information

BOARD OF DIRECTORS

Daryl K. Seaman, O.C. [1]
Chairman of the Board
Calgary, Alberta

Robert G. Moffat
President, Chief Executive Officer and Director
Calgary, Alberta

C. Kent Jespersen [1][2]
Director
Calgary, Alberta

Henry R. Lawrie
Director
Calgary, Alberta

Kenneth R. Stiles [2]
Director
Calgary, Alberta

George Y. Tooley [1][2]
Director
Montreal, Quebec

[1] Member of the Compensation and Corporate Governance Committee

[2] Member of the Audit Committee and Reserves Committee

MANAGEMENT

Robert G. Moffat
President and Chief Executive Officer

John W. Essex
Vice President, Operations

David A. Fleming
Vice President, International

C. Dean Setoguchi
Vice President, Finance

CORPORATE SECRETARY

R.J. (Bob) Engbloom

CORPORATE OFFICE

1200, 333 – 7th Avenue S.W.
Calgary, Alberta, Canada
T2P 2Z1

Phone: (403) 232-0292
Fax: (403) 232-8920
E-mail: bve@bvenergy.com
Website: www.bvenergy.com

UNITED KINGDOM OFFICE

Bow Valley Petroleum (U.K.) Limited
5 Eastgate Court, High Street
Guildford, Surrey, England
GU1 3DF

Phone: +44 (0) 1483-568-667
Fax: +44 (0) 1483-562-667

BOARD OF DIRECTORS (U.K.)

Christopher D. Longman
David A. Fleming
Robert G. Moffat
Walter R. Roberts

AUDITORS

PricewaterhouseCoopers LLP

BANKERS

Bank of Scotland
Canadian Imperial Bank of Commerce

REGISTRAR AND TRANSFER AGENT

Valiant Trust Company

SOLICITORS

Macleod Dixon LLP
Dundas & Wilson

INDEPENDENT ENGINEERS

APA Petroleum Engineering Inc.
Ryder Scott Company Petroleum Engineers

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Trading Symbol: BVX

CORPORATE GOVERNANCE

Information concerning the Corporation's corporate governance practices is presented in the 2003 Information Circular for the Annual General Meeting of Shareholders.

ANNUAL INFORMATION FORM

The Annual Information Form can be obtained on request from the Corporation.

ABBREVIATIONS

bbl	barrel (oil)
bcf	billion cubic feet (natural gas)
boe	barrels of oil equivalent
bbls/d	barrels of oil per day
DTI	Department of Trade and Industry
FPSO	Floating Production, Storage and Offloading
F&D	finding and development costs
LIBOR	London Inter-Bank Offered Rate
mbbl	thousands of barrels
mboe	thousands of barrels of oil equivalent
mcf	thousands of cubic feet
mmbbls	million barrels of oil
mmbtu	million British thermal units
mmcf	million cubic feet
mmcf/d	million cubic feet per day
mstb	million stock tank barrels
scf	standard cubic feet
tcf	trillion cubic feet
UKCS	United Kingdom Continental Shelf
WCSB	Western Canada Sedimentary Basin

In the interest of providing Bow Valley's shareholders and potential investors with information regarding the Corporation, this annual report contains forward-looking information relating to Bow Valley's operations, anticipated financial performance, business prospects and strategies. Forward-looking information typically contains statements with words such as "anticipate," "believe," "expect," "plan," or similar wording suggesting future outcomes. Much of this information appears in the management's discussion and analysis. Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated by Bow Valley.

Designed and produced by MERLIN EDGE Inc.
Printed in Canada

giant

Bow Valley Energy Ltd.

1200, 333 – 7TH AVENUE S.W.
CALGARY, ALBERTA, CANADA
T2P 2Z1

PHONE: (403) 232-0292
FAX: (403) 232-8920
WEBSITE: www.bvenergy.com